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JOHNS HOPKINS UNIVERSITY STUDIES

IN

HISTORICAL AND POLITICAL SCIENCE

HERBERT B. ADAMS, Editor

History is past Politics and Politics are present History.—*Freeman*

HISTORY OF STATE BANKING

IN

MARYLAND

BY

ALFRED COOKMAN BRYAN, PH.D.

Instructor Washington High School

THE JOHNS HOPKINS PRESS, BALTIMORE

PUBLISHED MONTHLY

JANUARY, FEBRUARY, MARCH, 1899

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PREFACE.

Banking under State charters, the system under which all the banks of the United States, except the two national banks, were organized from the adoption of the Constitution down to 1863, a period of over eighty years, has received very little scientific investigation. The scattered character of the material has been one of the chief obstacles to a detailed inquiry into this large division of our banking history. Local studies in the various States must necessarily precede the comprehensive treatment of the whole subject. The advantages to be gained from the study of our banking experience cannot be doubted, and especially at the present time are its lessons important, when we are in the midst of discussion of reforms in banking and currency, and the necessity of a change in our present system is within plain view.

Moreover, as a portion of local history, the subject has a decided interest. The development of banking facilities and the industrial progress of the State have been very closely connected.

Nothing whatever has been written upon State banking in Maryland. Scant materials have rendered necessary the omission entirely of some subjects which should have found place, and the limited treatment of others. The more important sources for the present narrative are the Maryland Laws, Maryland Public Documents, Reports of the State Treasurer, and of the Comptroller of the Treasury of Maryland, and Niles's Register. The bank reports made to the State Treasurer before 1828 were not published, and the statistical material for this period is quite unsatisfactory. From 1828 to 1863 the reports were generally published, and are available in the Maryland Public Documents. The orig-

inal reports were destroyed "with all the other rubbi
as a State officer informed me. Newspaper and maga
files have been constantly consulted.

Acknowledgment must be made of the courtesy of
Maryland Historical Society, the use of whose library g
to the writer access to many pamphlets and papers not e
where obtainable. Acknowledgment must also be made
many bankers for information and suggestions concern
matters within their experience.

A. C. B

History of State Banking in Maryland, 1790--1864.

CHAPTER I.

THE BEGINNING OF BANKING IN MARYLAND, 1790-1810.

1. *Introduction.*

In the following narrative we shall study the system of banking which existed in Maryland prior to the passage of the National Bank Act in 1863. The organization and line of development will be studied chiefly as they are reflected in the legislative regulations upon banking by the General Assembly of the State. Our history will be, however, more than a bare legislative history, for political, economic and industrial conditions will be constantly examined to afford the reason for legislative action, and also the close relationship between development in banking and industrial advancement will be constantly kept in view.

The limits of our territory shall be observed, so far as the nature of the subject will permit. If the present paper were the place for it, material for a broad comparative study is not available. The period covered extends from the first grant of a charter for banking purposes, in 1790, to 1864, at which date State banking was almost entirely superseded by the establishment of a national banking system, in consequence of which nearly all the old banks reorganized as national banks, and the old system received little further development.

The term "State banking" is used in the sense comm
the United States as applicable to banks operating
State charters, as opposed to government or national
The study will be confined to "banks" in the ori
sense, i. e., to those having the three functions of dis
deposit and issue. "Banks" in the early sense, im
simply the power of issue, under which class would fa
and other private banks, and also early government
will not be considered. Savings banks are also omitte
treatment, except in so far as they possessed the thre
tions named.

The year 1810 presents itself as a natural point of di
The period before this is concerned with the introduc
banks into Maryland, the economic conditions giving
their organization, and the source of Maryland ba
ideas. The disappearance of the first Bank of the U
States marks a period in the banking history of the co
Particular results of it in Maryland were the broad
sion of banking facilities to the counties, in contrast t
previous confinement to Baltimore and Annapolis,
the same time there occurred a decided change in the
acter of banking in the State, a period of experimen
follows, due to the withdrawal of the controlling inf
of the United States Bank.

2. *Economic Condition of Maryland.*

Banks in the modern sense, exercising functions
count, deposit and issue, cannot be said to have exis
America until the last quarter of the eighteenth ce
Their establishment was called for by the economic ne
the country. It is generally true that in a new and de
ing country profitable employment can be found for
tainable capital. In addition to this, the English co
were just emerging from a long period of war, in whic
resources had been greatly exhausted. The revival
dustry from the interruption of the war was quick and
getic, and capital was in demand for productive pur

The value of banks in collecting free capital, in aiding the anticipation of funds, in increasing the medium of trade, was clearly seen.[1]

The condition of the circulating medium was also a source of inconvenience and confusion. Prolonged scarcity of money sooner or later drove all the colonies to paper issues. A proper limit was seldom observed, consequently depreciation resulted, and fresh issues became in the hands of a speculating and debtor class a means of release from their obligations.

Maryland first issued paper money in 1733. Thereafter almost any object, war, State loans, roads, bridges, State buildings or what not, became a sufficient excuse for a new issue. The intervals between emissions varied from one to six years, and the amounts ranged from $150,000 to $1,500,000. After a term of years, usually about twelve, the notes were to be redeemed, but redemption was commonly made in new notes at fixed rates. The depreciation was usually about six or seven to one of specie.

During the Revolutionary War this paper currency reached its floodtide. The Continental Congress issued at least $200,000,000, which distributed itself throughout the States.[2] It did not, however, supersede State money in Maryland; both were made legal tender in 1777. The war expenses necessitated increased State issues to aid the State treasury. In 1777 Maryland issued $1,300,000; in 1780 another million followed, and in 1781, a third. The whole mass depreciated greatly, and continental bills became worthless. Maryland currency at this time was composed of various issues, known as continental bills, convention bills, provincial bills, State continental bills, State money, black money and red money. Such a quantity of paper in circulation was naturally calculated to drive out the specie, although in 1781 the considerable sum of £100,000 was esti-

---

[1] See pp. 17 and 21.

[2] Thomas Jefferson's estimate. Cf. H. Phillips, Amer. Paper Currency, 2d series, p. 199.

mated to be still in the State, although it became more more hoarded.[1] It is difficult at this time to imagine confusion inevitably resulting from such a mixture of p and metal money.

To relieve this condition of the circulating medium, to assist in the industrial revival which was occurring im diately after the war, fresh paper issues, superseding the ones, and with better provision against depreciation, w believed to be the remedy. Bills for new emissions w urged at every session of the Assembly, but unsuccessfu The sound industrial classes preferred existing condition the probable perversion of the remedy by demagogues speculators, and the virtual destruction of the effects of money contracts.[2] The numerous special bills for the re of debtors at this time indicate also the class which was m clamorous for State issues.

The industrial development of Maryland after the v was something phenomenal. In 1790 her total populati was 320,000, distributed over eighteen counties, 9000 squ miles in area. Baltimore numbered 13,500 people; Anna olis was the second city in importance. The population the country districts was located chiefly along the riv courses, and grain and tobacco culture were the most impc tant pursuits. A keen rivalry for industrial supremacy e isted between Maryland and her sister States. By 1794 sl had become the second State in the Union in respect to h export trade. Baltimore became transformed from a lar town to the first port of the United States for grain, gra

[1] The coins were various and circulated according to weigh johannes, half-johannes, moidores, English guineas, French guinea doubloons, Spanish pistoles, French milled pistoles, Arabi chequins, English milled crowns, other English milled silver, Fren silver crowns, Spanish milled pieces of eight, and other Spanis French, German and Portuguese gold and silver coins. (Scha History of Maryland, Vol. II, p. 478.)

[2] Cf. Scharf, Western Maryland, p. 538.

products and tobacco.[1] The continental wars created an unusual demand for American breadstuffs, and likewise a large part of the European carrying trade devolved upon American boats. In this traffic Baltimore became a center, and the Baltimore "Clipper," through its superior sailing qualities, became the chief instrument.[2]

Baltimore was the natural entrepôt for the large extent of country embracing Maryland, Delaware, Western Pennsylvania, Southwestern New York, the Ohio region and parts of Virginia. To maintain this trade against her rivals, New York, Philadelphia and Alexandria, communication had to be made as easy and inexpensive as possible. This necessitated the improvement and extension of roads and the building of bridges. Each session of the Assembly was besieged with petitions for internal improvements of one sort or another, having for their object the development of the counties and the advancement of agricultural interests. In 1785, for example, there were thirteen State roads proposed, aggregating 504 miles, the estimated cost of which was £20,800. The activity along all lines of industry was intense, and the available resources of the State were being strenuously developed. It was at this time that the beneficial influence of banks in other places was brought prominently to the public attention, and this method was adopted to assist in Maryland's advancement.

3. *Source of Maryland Banking Ideas.*

The idea of great national banks was a familiar one throughout the last century. The banks of Venice, Amster-

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[1] Table showing growth of Maryland's export trade:

1791,	$2,239,691	1795,	$5,811,380
1799,	16,299,609	1800,	12,264,331
1803,	5,078,062	1805,	10,859,480
1807,	14,298,984	1810,	6,489,018

Pitkin's Statistical View.

[2] Maryland Tonnage (Pitkin):

1793,	$27,300	1794,	$53,000
1795,	66,000	1797,	80,100
1799,	109,600	1800,	112,400

dam, of France, England, Ireland and Scotland were chief representatives of this class, and they had acqui world-wide fame. This same idea of a great national b for each State, whether established to assist the governm directly or simply for general economic purposes, adopted in America, and the Bank of North America chartered by the Continental Congress in 1781 to help i its financial difficulties. Alexander Hamilton conside that it had forfeited its place by accepting a charter from State of Pennsylvania, and accordingly he proposed in stead the first Bank of the United States.[1] After sovereig and independence had been won, it was natural that the in vidual States should proceed along the same line, and cordingly single State banks were established, chiefly general economic reasons, in Massachusetts (1784), N York (1784), and Maryland (1790).

The Scotch banking system, through the writings of Ad Smith, Sir James Steuart and Montefiore, exercised mo influence than any other system upon the form and charac of organization of early Maryland banks. The favoral criticisms by Smith,[2] Steuart[3] and Montefiore[4] upon t Scotch system did much to alleviate the prejudice agai banks, and they acquainted the people generally with t leading features of a successful system. When banks beg to be earnestly discussed in Maryland about 1790, the Scot system received the greatest amount of attention, owing, doubt, to greater familiarity with it through the economis just mentioned.[5]

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[1] Hamilton's report on a National Bank, Dec. 13, 1790.

[2] Wealth of Nations, Vol. I, pp. 296 ff. (Bohn ed.)

[3] Pol. Econ., Vol. II, Bk. XIV, ch. 3.

[4] Commercial Dictionary, Vol. I, p. 235-6.

[5] The following passages, previously referred to were fr quently quoted (cf. *Md. Journal and Baltimore Advertiser*, Dec. and 17, 1784; Observations on an act to establish a Bank, Annap 1805): "In countries where trade and industry are in their infanc credit must be little known, and they who have solid property fir the greatest difficulty in turning it into money, without which indu

Following are some of the more important points of similarity to the Scotch system which were adopted in Maryland: Most of the early Scotch banks were originally private copartneries; this system was usually followed in Maryland until 1817, when it was prohibited by law in order to prevent the increase of banking companies.[1]

The large extension of branch banking is a distinctive feature of the Scotch system. This principle was introduced into Maryland in 1804, but it has received comparatively little development. No bank in Maryland has had more than two branches performing a regular banking business, and but a limited number have had branches at all; these were organized early. Several attempts at a broad extension of the system were not carried through.[2] Perhaps on this account outlying agricultural districts were developed

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try cannot be carried on, and consequently the whole plan of improvement is disappointed. Under such circumstances it is proper to establish a bank upon the principles of private credit; this bank must issue upon land and other securities. Of this nature are the banks of Scotland; to them the improvement of that country is entirely owing—although I have represented this species of banks, which I call Banks of Circulation upon Mortgage, as peculiarly adapted to countries where industry and trade are in their infancy, their usefulness to all nations who have upon an average a favourable balance upon their trade, will sufficiently appear on examination of the principles upon which they are established." (Steuart.)

"I have heard it asserted that the trade of the city of Glasgow doubled in about fifteen years after the first creation of Banks there; and that the trade of Scotland has more than quadrupled since the first creation of the two public banks of Edinburgh, the Bank of Scotland (1695), and the Royal Bank (1727). Whether the trade, either of Scotland in general, or of the city of Glasgow in particular, has really increased in so great a proportion during so short a period, I do not pretend to know. If either of them has increased in this proportion, it seems to be an effect too great to be accounted for by the sole operation of this cause. That the trade and industry of Scotland, however, have increased very considerably during this period, and that the banks have contributed a good deal to this increase, cannot be doubted." (Smith.)

[1] Md. Laws, 1817, ch. 156. [2] Cf. pp. 83 and 85.

more slowly than they might have been under a systen branch banking. The expense of operation of indepen(banks is greater than of branch banks, and at the same t the funds are managed less effectively and the competitio greater. The period of disaster to country banks follow the suspension of 1812 would probably have been avoi under a system of branch banking.

Large capitals were a feature of early Maryland banks, of the Scotch banks. The Bank of Maryland had $300,(paid-up capital; the Bank of Baltimore wished to be allov $9,000,000, but was limited to $1,200,000; $1,200,000 was capital of the Farmers' Bank of Maryland, and $3,000,(that of the Union Bank of Maryland.

The payment of interest on deposits was begun by t Farmers' Bank of Maryland in 1804, for the first time in t United States. This plan later became general. The pe(liarly Scotch feature of cash credits was also introduced this bank. In each case the issue of notes was free and bas upon general credit, as opposed to specific funds. The ma imum rate of discount was fixed in Maryland; in Scotlan the minimum rate. Maryland banks generally could lo: upon real estate. In their relations with each other tl banks were prompt and exacting; there were regular aı frequent exchanges; in fact, daily exchanges became tl practice in Baltimore very early.[1] In the general attituc of the State toward the banks there was another similarit The charter regulations were by no means of a strict natuı in either case; the public was virtually dependent upon th will of the officers for proper banking facilities and good ad ministration.

The influence of the Bank of the United States, establishe in 1791, was not great; some principles of minor importance which will be noticed hereafter,[2] may perhaps have bee adopted in Maryland from its example.

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[1] Bank of Md. Conspiracy, T. Ellicott, p. 3.

[2] See p. 26.

4. *Early Banks.*

The economic condition of Maryland during the last quarter of the eighteenth century has been briefly described above. It will suffice here merely to recall the remarkable industrial development through which the State was passing. At the same time the specie in circulation was limited in amount and heterogeneous in character and fluctuating in value. The State bills of credit, of which there had been such a flood during the war, were gradually passing out of circulation, and the Legislature persistently refused new issues. The circulating medium was becoming more and more contracted. An adequate metallic currency was too expensive. Under these conditions the demand for State bills of credit began to change to one for a bank.

The first attempt to incorporate a bank in Maryland occurred in 1782, when James McHenry, Esq., introduced into the Senate "an act to establish the credit of a bank" in Baltimore. The bill was considered and passed the Senate; the House of Delegates, however, rejected it.[1] Nothing further can be learned about it.

In 1784 the agitation was again revived. The following advertisement appeared in the Baltimore papers:[2] "Such of the Inhabitants as are desirous of promoting the establishment of a Bank in the Town of Baltimore are requested to meet * * * , when proposals for carrying into immediate effect an institution so essentially necessary to the commercial interests, not only of the town, but of the State also, will be laid before them." The townspeople entered heartily into the scheme; proposals for the bank were immediately published and subscriptions solicited.[3] The proposals explain in the following words the advantages that were expected to be derived from a bank: "The experience of wise commercial nations has fully evinced the utility of well-regulated Banks. The advantages resulting from the Bank of

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[1] *Journal of Senate*, Nov. Sess., 1781, pp. 20, 28 and 31.

[2] *Md. Journal and Balto. Advertiser*, Nov. 9, 1784.

[3] *Md. Journal and Balto. Advertiser*, Nov. 19, 1784.

North America, in Philadelphia, have already been m: fest, and point out to this State the evident necessity of institution which naturally increases the medium of tr: promotes punctuality in the performance of contracts, fa tates the payment of public dues, furnishes a safe deposit cash, aids the anticipation of funds on paying common terest, advances the value of country produce and facilit: the negotiations of the foreigner, while it promises an vantage to the Stockholder."

The bank was to be styled the "Bank of Maryland," the capital stock proposed was $300,000, in shares of $4 payable in gold or silver. Other sections of the articles association relate to the subscription and payment of sha the general powers and salaries of directors, and penalty fraud.[1] The election of directors might be made after 1 shares had been subscribed. In case the State by law m: the bank notes receivable in payment of taxes and ot public dues, the Legislature was to have the right to exam the affairs of the bank and to have access to its books a papers. Within ten days 150 shares had been subscrib so that they were able to proceed to the election of directc

A lively discussion was carried on between the friends a opponents of the bank until the matter was finally decid by the Legislature. The merchants of Baltimore favored The agricultural and speculative elements opposed it; t former, because the short time of loans practically exclud them from borrowing, the rates of discount would be hig They also argued that it would draw capital from the cou try to the city, and thus check improvement and agricultu: The latter, the speculative class, preferred State issues.[2] was objected also that it would aid only a few. The 3 shares which were subscribed were distributed among b seventeen persons.

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[1] These provisions recur in the charter of the Bank of Marylan see p. 29.

[2] *Md. Journal and Balto. Advertiser*, Dec. 7 and 17, 1784.

A petition for a charter was presented to the Senate at the November session, 1784. A committee of the House of Delegates reported favorably upon it, and a bill was brought in to charter a bank, but it was finally laid over until the next session of the Assembly, and was not called up again.

For six years no further attempt was made to start a bank in Maryland. 1789 and the early part of 1790 formed a period of considerable depression in the State. A revival, however, began in the spring of 1790, when the extraordinary demand in Europe for food products, resulting from the breaking out of the French Revolution, began to be felt in America. Baltimore, the first grain and flouring port of America, received great stimulus from the rapid rise in the price of wheat, and all branches of industry were greatly quickened.

Credit facilities at this time were very meagre. An advance could usually be obtained upon tobacco after it had been placed in the warehouses which were regulated by the State. The State inspectors issued warehouse receipts stating the quantity and quality of tobacco in custody; these inspectors' bills could always be exchanged for good bills in London, and they furnished the medium for the large commercial transactions. This means of anticipating the return from crops was, however, limited, since the State undertook the inspection of tobacco only, and not of wheat and flour also, which at this time exceeded the former in amount.

As a result of these conditions an application was made by sundry citizens to the November session of the Assembly for a charter for a bank to be called the "Bank of Maryland." In this case the petitioners did not organize a partnership under articles of association before applying for a charter. Perhaps this may have been due to a desire to prevent public discussion of the project by enemies of banks who had been so effective in preventing the passage of the charter in 1784. Very slight notice of the bank appears in the papers before it had received a charter.

The assistance of industry and commerce was stated to be

the motive in establishing a bank. The bill had little c culty in passing; the final vote in the House of Deleg was fifty-one affirmative to seven negative.[1] The caj stock was fixed at $300,000. Subscriptions were opene Baltimore, December 10, 1790, and within fourteen d $200,000 was subscribed,[2] the amount necessary to be s scribed before the election of directors might occur. I ing the ensuing year this amount was paid in, and the b began operations. The remainder of the capital stock called in within the following four years. Subscripti were paid in foreign gold coins at 6s. or 6s. 8d. the pwt., pending upon the fineness.[3] Few of the notes of the B of North America at Philadelphia, and none of those of banks of New York and Massachusetts had reached Ba more at this time.

An addition to Baltimore's banking capital occurred 1792, when the Bank of the United States establishe branch at that place which usually operated a capital about $500,000.

In 1793 the Maryland Legislature granted a charter[4] the Bank of Columbia, which was to be located in the D trict of Columbia. The avowed object of the formation the bank was to assist in the preparation of the District occupancy by the National Government. The nominal ca ital was $1,000,000. It immediately passed from the jur diction of Maryland.

During the years 1790 to 1800 the Bank of Maryland w able to declare annual dividends of 12 per cent. Its capi was far below what it might with ease have employed. 1795 an unsuccessful attempt was made to double this ca ital.[5] As a substitute it was proposed to establish anoth

[1] *Journal of House of Delegates*, 1790, p. 34. Md. Laws, 1790, ch.
[2] Griffith, Annals of Baltimore, p. 128.
[3] *Md. Journal and Balto. Advertiser*, April 5, 1791.
[4] Md. Laws, 1793, ch. 30.
[5] Griffith, Annals of Baltimore, p. 128. Brief exposition of tl leading principles of a bank.

bank, which might consolidate with the Bank of Maryland, upon the consent of both parties. This clause was stricken out and an entirely separate institution received a charter in 1795 as the Bank of Baltimore,[1] although the Bank of Maryland became a subscriber to its stock.

The petition for a charter, signed by sixteen parties and submitted to the Legislature, declares that the Baltimore banks from the inadequacy of their capital to the trade of the country, do not come up to the end for which they were instituted, and it states further that the stimulation of industry, the extension of commerce, a more favorable balance of trade, a lower interest rate, the collection of capital, are advantages invariably following from the establishment of banks.[2]

The capital of the bank was fixed by the Legislature at $1,200,000, though the petitioners wanted the limit placed at $3,000,000, with provision for increasing it ultimately to $9,000,000, as the growing character of Baltimore trade demanded more banking accommodations.

The two banks had an aggregate capital of $1,500,000, to which there were added by the United States branch bank at Baltimore about $500,000. This amount could be very actively employed in a town whose export trade alone was of an annual value of more than $9,000,000, and which was rapidly growing, to say nothing of other commercial and industrial operations. Manufacturing was at this time advancing apace. A climax was reached at the end of the eighteenth century. Maryland's total exports for 1799 were $16,300,000. After this time there was a decrease, due chiefly to the narrowing of the market for American breadstuffs by the restoration of peace in Europe in 1802, and also to the competition of Philadelphia and New York for Baltimore's trade. By 1803 the lowest point had been reached; exports had fallen to $5,100,000; there was a general stagna-

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[1] Md. Laws, 1795, ch. 27.

[2] A brief exposition of the leading principles of a bank, etc.

tion. The relapse was in large measure charged to Ba more's lack of banking facilities in comparison with her si cities.[1] It was estimated that $120,000 of good paper v weekly rejected by the Baltimore banks. The parties se ing accommodation were compelled to patronize brok who charged them excessive rates. Trade was thus dri away.[2] The rivalry with Philadelphia and Alexandria, V was very keen. Pennsylvania at this time had six ban four of which were in Philadelphia, whose total capital v $10,000,000; the banking capital of New York was $6,5c 000, operated by seven banks; yet the trade of these pla was normally about the same as Baltimore's. Within years the circulating medium of Virginia, Pennsylvania a New York had increased about 50 per cent., it was es mated, whereas in Maryland it had remained almost s tionary.[3] Baltimore saw Philadelphia drawing part of l Western and Northern trade. A considerable amount her Eastern Shore products were going to Alexandria.

To assist Baltimore from the depression, and to render h more nearly equal to her rivals in banking capital, the Uni Bank of Maryland was organized. The articles of assoc tion appeared February 24, 1804.[4] On April 10 of the sar year books were opened for subscriptions of stock, and t amount requisite to enable them to proceed with the electi of directors was subscribed in one day. It began busine in June, 1804, as a limited partnership or company, and was thus the first bank in Maryland to begin operations wit out first having procured a charter.

The capital stock of the bank was $3,000,000, in shares $100, of which $2,312,150 was paid in. Subscription bool were opened in the counties, and 500 shares were allotted each county (1000 to Anne Arundel) for subscription. Se ators and delegates were made county commissioners

[1] *Federal Gazette and Balto. Daily Advertiser*, Jan. and Feb., 18c
[2] *Federal Gazette and Baltimore Daily Advertiser*, Feb. 23, 180.
[3] Ibid. [4] Ibid., Feb. 24, 1804.

charge of the subscriptions. Five thousand shares were reserved until after incorporation, so that the State, if it desired, might subscribe. The two latter measures were probably taken with a view to procuring votes for the charter, though there appears to be no evidence that other inducement was offered.

The articles declared the liability of the company to be limited to their capital stock, but directors were personally liable for dividends declared in excess of profits. Land, ships, and merchandise could be held only as security. The partnership was to terminate in 1825, unless a charter was received before that time.[1]

All of the banks thus far established were in Baltimore, and were preëminently for the aid of its commerce and manufactures. The agricultural needs had not yet received the necessary attention. With a view to assisting the farmer class especially, the Farmers' Bank of Maryland was organized in August, 1804, at Annapolis, and a branch bank was located at Easton, and later (1807) another at Frederick. In addition to benefiting the agricultural interests, it was hoped that it would also assist in Annapolis a commercial development parallel to that of Baltimore, and that it would divert from Baltimore to Annapolis the amassing of the free capital of the State. Easton, too, it was hoped to develop into an entrepôt for the southern part of the Eastern Shore, and thus cut off the flow of Maryland produce to Alexandria.

It started as a private partnership. The articles of association appeared early in August, 1804. A lively discussion was provoked. It was urged that the agricultural interest did not require and could not support such an institution, and that the commerce of Annapolis and Easton was not of sufficient magnitude to need it.[2] At this time the

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[1] Other provisions related to voting and the election of directors and are essentially the same as those of the charter to be described in the next section.

[2] Observations on an act . . . . to establish the Farmers' Bank of Maryland.

application of the Union Bank for a charter was being bit terly opposed by the friends of the old banks, who wishe to retain the monopoly of banking in their hands. Th Bank of Baltimore had been paying regularly from 10 to 1: per cent. in dividends, and its stock was quoted at $500 (pa $300). Union Bank stock was selling at $8 to $10 advance though it was still unincorporated. The two new bank: were able to obtain charters from the December session o the Assembly, 1804, by banding their forces and working for each other in the Assembly.[1]

At Charlestown, a town created by act of Assembly, anc which scarcely had an existence except on paper, a private bank was organized in 1804 under the title of the "Fisherman's Bank of Charlestown." A branch was placed at Turkey Point. The nominal capital was $1,000,000. A charter was never obtained. It was largely a means of booming the town.[2]

The renewal of the continental wars in 1804 again made a market for Maryland products, and Maryland commerce and manufacture, which had sunk so low in 1803, had by 1806 again almost attained that degree of prosperity which was reached in 1799. The export trade in 1806 amounted to $14,500,000. On the crest of this wave of prosperity the Mechanics' Bank of Baltimore was chartered in 1806 to give aid especially to practical mechanics and manufacturers. The capital was $1,000,000, of which $640,000 was paid in, including $94,625 subscribed by the State.[3]

Up to 1807 Baltimore and Annapolis, the most populous and leading industrial cities of the State, were the seats of all the banking institutions. In the Farmers' Bank, at Annapolis, one of the aims was to aid agriculture. In 1807 a general extension of banking advantages to the various counties by locating banks in the most important county

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[1] *Federal Gazette and Balto. Daily Advertiser*, Aug. 28, 1804.
[2] Ibid., Aug. 7, 1804.
[3] Griffith's Annals of Baltimore, p. 179.

town, was begun. The first bank thus established was the Hagerstown Bank, in Washington county. Its capital was $250,000. In the course of a few years banks were located in nearly all the counties of the State.

TABLE OF THE CHARTERED BANKS OF MARYLAND ON JANUARY 1, 1810.

Name of Bank.	Established.	Authorized Capital.	Paid-in Capital.
Maryland,	1790	$300,000	$300,000
Baltimore,	1795	1,200,000	1,199,250
Union,	1804	3,000,000	1,845,560
Farmers',	1804	1,200,000	819,575
Mechanics',	1806	1,000,000	555,970
Hagerstown,	1807	250,000	250,000
Totals		$6,950,000	$4,970,355

5. *A Typical Charter.*

We shall defer consideration of the charter for a moment to notice briefly the legal basis of banking privileges in Maryland. The sources of this privilege were the common-law right and special charters granted by the State. In some of the States of the Union the common-law privilege was from an early date restricted, both to secure the public safety and also on account of the granting of monopoly privileges to special companies. This, however, did not occur in Maryland until 1842.[1] The two systems coexisted throughout the early part of our period, though in 1817 a partial restriction of the common-law right occurred, when it was made unlawful for persons to associate for banking purposes without first procuring a charter.[2] The effect of this law was to prevent companies with large capital from engaging in banking without charters, but it did not apply to individuals. Persons issuing notes were in 1831 made subject to the same laws as banks in regard to the denominations of the notes allowed to be issued,[3] but the power to

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[1] See p. 100.

[2] Md. Laws, 1817, ch. 156.

[3] Ibid., 1831, ch. 317.

issue remained intact until in 1842 the State removed it by legal enactment.[1]

A change occurred in the legal basis of banking rights in 1864, when the National Government passed a general law regulating banks. The reorganization of nearly all Maryland banks under this law marks the limit of our study. Free banking under a general law was frequently under debate in Maryland during the forties and fifties, and in 1852 a bill was introduced into the Legislature to establish such a law, but its passage was defeated.[2]

With this preliminary digression we will return to the charter. Excepting the charter of the Bank of Maryland, the charters of all Maryland State banks follow closely the form of that of the Bank of Baltimore, which was established in 1795, the second bank in the State. Special attention was given by the House of Delegates to the form of the charter,[3] and it served as a type for the charters of later banks. For these reasons it is the better suited for examination.

Various points of similarity between it and the charter of the first Bank of the United States indicate that the latter may have been used to some extent as a model. The following points of similarity may be mentioned:

1. The system of voting; the power of the majority limited.
2. Rotation of directors.
3. Personal liability for debts exceeding a limited amount.
4. Similar regulations regarding real estate and trade.

The following is an abridgment of the leading articles of the charter:

The location, capital, and number of shares were prescribed, and thirty-six persons were designated to receive subscriptions of a stated number of shares in Baltimore and in each of the eighteen counties. The books were to be kept open for subscriptions not less than three days nor longer than three weeks. Stock subscribed was deemed the property of the person in whose name it was taken in spite of all

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[1] See p. 100. [2] See p. 110.

[3] *Journal of House of Delegates*, 1795, p. 25, (Nov. 18).

agreements to the contrary. A person was allowed to subscribe not more than twenty shares in one day, though if too many shares were subscribed, the largest subscriptions were to be reduced so that all subscribers might hold some stock. Unsubscribed shares were to be laid open for subscription in Baltimore after four weeks' notice.

Payment of subscriptions was divided into two parts, and the first part was subdivided into thirds, of which the first third was payable to the Commissioners of Baltimore previously to the election of directors, after two months' notice. The directors, when elected, were to call in the remainder by December 1, 1797, though any subscriber could pay up his stock in full at any time before this limit and draw dividends on the amount paid in. Failure to pay the first third forfeited the right to the share.

The shareholders were to elect annually a board of fifteen directors who were to choose one of their number as president. As soon as 3000 shares had been subscribed and $150,000 paid in specie, the election of directors was to be effected. The bank was allowed to begin operations when $300,000 had been paid in specie. The directors were empowered to appoint officers, clerks, and servants, and to fix their compensation.

They were created a corporation with the usual powers and the following provisions were to be the fundamental articles of its constitution:

(1) The number of votes to which each stockholder was entitled, was, according to the number of shares he held, in the following proportion: one vote for each share up to two; one vote for every two shares from two to ten; one for every four from ten to thirty; one for every six from thirty to sixty; one for every eight from sixty to one hundred. No one could have more than thirty votes. Shares had to be held three calendar months previous to the day of election to confer the right of voting. Stockholders actually resident within the United States and none other were allowed to vote by proxy.

(2) One-third of the directors in office was ineligible for reëlection the next year; the director who was president could always be reëlected.

(3) Directors had to be citizens of the United States. No director of another bank could be a director of this bank. There were to be half-yearly dividends of profits. The stockholders were to receive an annual statement from the directors of surplus profits and of debts unpaid at the expiration of the original credit.

(4) Compensation of the president and directors was in the hands of the stockholders.

(5) Nine directors were to constitute a board for the transaction of business.

(6) Six hundred shares of stock, $180,000, were to be reserved for the State, of which not over $90,000 might be paid in in any one year.

(7) A meeting of the stockholders could be called by sixty or more stockholders representing at least two hundred shares. Ten weeks' notice of the meeting had to be given and its object specified.

(8) Neglect to pay any instalment of the capital forfeited the benefit of any dividend having accrued prior to the time of making the payment or during its delay.

(9) Bond of at least $50,000, with two or more acceptable sureties, was required of each cashier or treasurer.

(10) The corporation could only hold such lands and tenements as were necessary for its accommodation in the transaction of its business, and such as were mortgaged to it as security, or conveyed in satisfaction of debts previously contracted, or purchased at sales upon judgments obtained for such debts.

(11) The corporation could only deal in bills of exchange, promissory notes, gold or silver bullion, or in the sale of the produce of its lands. Six per cent. per annum was the maximum rate for loans and discounts.

(12) A loan of more than $50,000 to the State of Maryland, to the United States, or to any State, or of any amount whatsoever to a foreign State, required legislative sanction.

(13) Stock was transferable according to the by-laws of the corporation.

(14) Bills obligatory and of credit made to any person or persons were to be assignable by endorsement; bills or notes of the bank payable to bearer were made negotiable by delivery only.

(15) A prescribed form of oath for directors and cashier.

(16) If the corporation dealt in any goods contrary to this act, treble the value of the goods so dealt in was to be forfeited.

(17) If loans were made in violation of the twelfth article, three times the amount so loaned was to be forfeited.

(18) The total amount of the debts which the corporation might at any time owe, not considering deposits for safe keeping as a debt within the meaning of this provision, might not exceed double the amount of the capital actually paid in. Directors under whose administration any excess occurred were made personally liable for it, in addition to the liability of the corporation. Directors who were absent when the excess was created or who dissented from the resolution creating it, might exonerate themselves by giving notice to the Governor of the State or to the stockholders.

(19) The treasurer for the Western Shore was to be furnished annually, or oftener if required, with statements of the amount of the capital, the debts due to and from it, the deposits, the notes in circu-

lation, the cash in hand, and profits. He was given power to inspect the books and accounts of the bank, so far as was necessary relative to the public safety and the profits belonging to the State, but he was not allowed to inspect private accounts.

(20) The State, whenever it held $66,000 stock, was entitled to appoint two directors, to be elected one each by the House and Senate.

(21) The capital stock and funds of the bank were deemed personal and not real estate.

(22) The bank was prohibited from issuing notes of a less denomination than five dollars.

The duration of the act was limited to twenty years.

The charter of the Bank of Maryland, established in 1790, differed materially from that of the Bank of Baltimore. The privileges granted were greater, and there were no provisions corresponding to the fundamental articles of the charter of the Bank of Baltimore. The subscription of the capital, $300,000, was not allotted among the counties. Provisions regarding the capital, payment of subscriptions, voting, election of officers were similar to those of the charter described. A committee of three, chosen quarterly from the directors, were to inspect the accounts of the bank weekly. The liability of stockholders extended only to the amount of the stock. The charter was perpetual.

There were special provisions relating to fraud, robbery and debts. Any officer or stockholder convicted of fraud, forfeited his stock to the company, in addition to the remedy which might be had in the name of the company. Forging or counterfeiting was felony, punishable with servitude, seven years or less. Stealing bank notes was punishable as if other goods of the same value had been taken.[1] Debts of delinquents were to be collected by sale of property on an issue of a *capias ad satisfaciendum, fieri facias*, or attachment by way of execution. Such execution was not liable to delay by a *supersedeas*, writ of error, appeal or injunction from the chancellor, provided no part of the debt was in dispute.

[1] Md. Laws, 1792, ch. 1.

No limits were prescribed to the debts of the bank, none to its issues. It was not required to make an annual report to the Legislature, probably because the State had reserved for itself no share in its stock.

6. *Some Features of Early Maryland Banking.*

The monopolistic element in banking was especially distasteful in Maryland. A clause of the State Constitution discourages monopolies.[1] Two means were adopted to render banks of a public character. First, the State reserved the power in the charter to subscribe a specified amount to the capital stock of each bank.[2] As early as 1803 the State utilized this privilege as an investment for its unemployed funds by paying up the amount of 220 shares, out of 600 reserved, in the Bank of Baltimore.[3] The State did not subscribe in all the banks, but by 1811 some stock had been paid up in each of the city banks, and in three county banks. The State subscribed to the stock of no banks established after 1811. The maximum reached by the State subscriptions was $540,000. The revenue which it yielded ranged from $30,000 to $40,000 per annum.[4] The amount reserved for subscription by the State varied from one-third to one-tenth of the capital.

In a second manner the interest in banks was made general, and they were prevented from becoming too great a power in the hands of a few. The subscription of the capital stock of the early banks chartered by the State Legislature, unless they had been previously organized as partnerships, was apportioned among the twenty-two counties of the State.[5] A committee, usually of three, was appointed to receive subscriptions at the county seat of each county. Persons non-resident in the county could not subscribe until after the lapse of a specified time. Shares remaining untaken

[1] Dec. of Rights, sec. 39.
[2] The Bank of Maryland is excepted; its stock was wholly private.
[3] Md. Laws, 1802, ch. 58.
[4] Annual Reports of Treasurer for the Western Shore.
[5] Cf. Charters of Bank of Baltimore, Farmers' Bank, City Bank, etc.

at the expiration of the time limit could be subscribed by any one, and if they still remained untaken, they were offered in Baltimore after notice given in the papers.[1]

The allotment of the stock to the various counties for subscription was, of course, impossible when the banks had been in existence as partnerships before a charter had been applied for. In such cases their stock was already subscribed. Whenever the distribution of their stock was objectionable to them, they avoided it by organizing as a partnership before asking for a charter. Of the eleven banks which had been chartered in Baltimore before 1812, six started as private partnerships, though when charters were obtained by most of these, their capital stock was distributed throughout the State for subscription. In 1817 it was forbidden by law to organize a banking company without having first procured a charter.[2] The object of the law was to prevent the rapid increase of banking organizations. However, by this time the establishment of banks throughout the counties had put at rest the cry against the privileged few and against the absorption by the city, of the free capital of the country districts.

In 1795 an attempt was made to introduce into Maryland the principle of State participation in the profits of banks, in addition to the dividends upon its stock. It was proposed that one-half of the excess of the profits of the Bank of Baltimore, over 10 per cent. per annum should be paid to the State.[3] A lengthy discussion over it was provoked in the Legislature, but it was finally rejected, perhaps to compensate for the refusal of the Legislature to grant as great privileges as were asked for.

The right to issue promissory notes to circulate as money

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[1] In the same spirit, if too much was subscribed, the largest subscriptions were reduced in favor of the smallest, so that each subscriber might have at least one share. Cf. p. 27.

[2] Md. Laws, 1817, ch. 156.

[3] This principle is a feature of the charter of the Reichsbank of Germany, established in 1875.

is in no case specifically granted, inasmuch as at this time the common-law privilege of every one to issue, had not been restricted.[1]

The only limit placed upon the issue of notes was that the total of debts which a bank might at any time owe should not exceed twice the amount of the capital actually paid in. This limit was of little effect. Only in one or two cases of the most reckless banking did the debts approach it. The personal liability of the directors for any excess of debts over this amount was, therefore, only an empty form, since there was little probability of reaching this mark in practice. However, the introduction of the principle of personal liability was valuable, and the path to its future use was made easier.

The clause of the charter which required that the capital be paid in legal money[2] proved a very salutary one. Usually one-fourth of the nominal capital was required to be in hand in specie before operations could be begun. This compelled the banks organized between 1795 and 1810 to be founded upon a solid capital. Up to this time no evidence can be found that the instalments of capital were paid with stock notes.

The business which the banks might engage in was carefully restricted to banking operations exclusively, in which were included the functions of discount, deposit and issue. The holding of real estate was expressly prohibited, except so far as it was necessary for the conduction of business, and except also land mortgaged or purchased in satisfaction of debt, or held as security. Real estate was not allowed to remain in the possession of the bank more than three years. It was not forbidden to loan upon mortgage security; in fact, in the case of the country banks it was expressly permitted to loan upon land. The Mechanics' Bank also was allowed to loan to practical mechanics and manufacturers on

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[1] Cf. p. 25.

[2] Gold, silver, or the notes of specie-paying banks.

property security up to one-eighth of its paid-in capital, but no loan was to be made for more than $3000, nor for longer than two years. Commercial operations, a most tempting field for Maryland capitalists, were usually especially forbidden to the banks.

The monopoly of banking was not given to the chartered banks, though they enjoyed an advantage over unincorporated banks through their limited liability.

By virtue of the State's subscription to the stock of the banks, two means of inspection of their operations were furnished. As a stockholder the State assumed the right to participate in the direction of the banks by appointing a part of the directors, usually from one to four, varying with the amount of the State's stock. These directors had the same rights, powers and privileges as those elected by the stockholders.[1] In the second place, the annual reports, required to be rendered to the treasurer for the Western Shore, gave the public some idea of the condition of the banks. To be sure, the primary object in each case was not protection of the people at large, but simply the safety of the State's stock.

In 1806 a provision was introduced into the charter of the Mechanics' Bank requiring a reservation of 1 per cent. of its capital from surplus profits as a contingency fund. The principle became common by insertion in other charters, but it did not appear in all. The fund was not applicable to any particular sort of liability, but to all in general. It might easily have become an important safeguard by being required of all the banks, and by being placed in the hands of a State officer, to meet the liabilities not otherwise provided for, of insolvent banks. This is, in fact, the substance of the Safety Fund law of New York, adopted in 1829.[2]

In 1793 an act was passed making the forgery, or counterfeiting, or stealing, or knowingly passing such notes of any bank of the United States felony, and punishable as if goods

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[1] Md. Laws, 1807, ch. 141.
[2] *N. Y. Senate Journal*, Apr., 1829.

of like value had been stolen.[1] This simply made gene the application of the law passed with reference to the Ba of Maryland.[2] In 1797 the same was applied to the forgi of checks and orders.[3] Forgery on a bank was made pu ishable by death in 1806,[4] but this extreme measure w repealed after two years.[5] No executions occurred under The much milder penalty of five to ten years in the penite tiary was fixed upon in 1809.[6]

In many respects we must pronounce these early ideas banking very crude, yet little else could be expected in t case of a new institution. As with other institutions, with banking, the elements were imported, but the develo ment was made to suit American conditions; experience w the teacher. The nature, functions and benefits to be rived from banks were pretty clearly understood,[7] but on side of practice, their experience had not yet been suffici to lead them to sound rules of management. The law p scribed no security for notes or deposits, and practically limit for issues. The public was really at the mercy of bank. The capital was required to be paid in gold, silv or the notes of specie-paying banks, but no method of exa ination was prescribed to see that the law was complied w Contemporary writers[8] repeatedly affirm that the cap was paid in specie bona fide, and that stock notes were used.

The State did not insist upon its privilege of supervis granted to it as a stockholder. The requisition of an ann report and the right to inspect at any time might easily h been made by the State authorities a means of wholesc criticism upon the banks, if it had been properly enforc but the banks paid little attention to it, and repeated a

[1] Md. Laws, 1793, ch. 35.
[2] See, p. 29.
[3] Md. Laws, 1797, ch. 94.
[4] Ibid., 1806, ch. 84.
[5] Ibid., 1808, ch. 72.
[6] Ibid., 1809, ch. 138.
[7] See pp. 17 and 21.
[8] Cf. Niles' Register.
[9] Resolution 18, Md. Assem., Dec., 1818. Ibid., 47, Md. Ass Dec., 1819.

requiring the reports availed little until 1826, when a penalty was imposed for non-compliance.

An annual report kept the stockholders informed of the condition of the bank. This, with the rotation of directors and their personal liability for dividends declared in excess of profits, were almost the only provisions in the interest of stockholders.

Political influence frequently had much to do with securing a more or less favorable charter. State Delegates and Senators were made county commissioners to receive subscriptions in the various counties with a view to procuring their influence in the Assembly on the vote for the charter.[2] No direct evidence of corruption has been found; however, complications with political parties were scarcely calculated to assist in the formation of sound banking principles.

7. Practice.

The presence in Baltimore of the branch of the Bank of the United States had a very salutary effect upon Maryland banks. The policy of the Bank of the United States was always to restrict as far as possible State bank circulation. This was accomplished by the frequent return of the State bank notes received over its counters. Naturally the State banks were strenuous in their objections to what they called the oppression of the "monster" bank, but on the whole the competition was very beneficial in reducing issues and in fixing the habit of daily exchanges between the banks.

The directors were usually men engaged in mercantile pursuits, who were broadly acquainted in business circles, and who knew the standing of parties liable to call for loans. To secure a broader territory from which to drawits patrons, the Farmers' Bank of Maryland adopted the plan of having a director from each county, who might be able as an intermediary to extend banking facilities into his county, and

[1] Md. Laws, 1826, ch. 215, sec. 5. Gouge, History of Paper Money, ch. 6.

[2] *Federal Gazette and Baltimore Daily Advertiser*, Feb. 24, et seq., 1804. A Brief Exposition, etc.

who might also have the necessary knowledge of parties of his locality asking the bank for accommodations.

To prevent the banks from falling into the hands of a few individuals, a system of rotation of directors prevailed, as has been mentioned.[1] The danger in this was that a board not sufficiently skilled in banking affairs might be placed in charge of the bank. This, however, seems to have been avoided, since any diminution of the percentage ineligible for reëlection was, when referred to the stockholders, regularly opposed by them,[2] whereas they would have been very sensitive to a diminution of the dividends from lack of skill in management.

The directors, since they were usually men in mercantile or commercial business, especially appreciated banking facilities and in many cases they were the ones who most needed discounts, yet there can be no doubt but that they enjoyed especial favors at the bank, both in respect to rates and amounts of discounts. In the charter of the Farmers' Bank at Annapolis a clause was inserted which prohibited directors from receiving discounts on different terms from others.[3] A second step was immediately taken placing a definite limit to the amount of discounts which directors might receive. For the Farmers'[4] Bank the limit was $1000 a week; for the Mechanics' of Baltimore the total was fixed at $9000, renewable at discretion. The Hagerstown Bank allowed $500 a week.

There was, too, considerable dissatisfaction with the banks, owing to the fact that they confined their discounts largely to a small number of friends, and did not grant accommodations to all simply on the merit of the paper offered. This charge was urged especially in the early years of banking in Maryland, when the banking capital was altogether inadequate to the needs of the community. The Bank of Maryland and the Bank of Baltimore became very objection-

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[1] See pp. 26, 27 and 35.
[2] Md. Laws, 1800, ch. 23.
[3] Ibid., 1804, ch. 61.
[4] Ibid., 1807, ch. 26.

able in this respect, and this, in fact, furnished a strong argument for the creation of the Union Bank.[1]

The board of directors for the transaction of business usually consisted of from six to nine, of whom the president was one; but four or five directors were allowed to constitute a board for making discounts only.[2] Discounts were made on two days of the week, and two acceptable sureties were required on each paper. The maximum rate lawful for the banks to charge on loans and discounts was fixed at 6 per cent. per annum.[3] If information was given and supported to the satisfaction of the majority of the board or quorum of directors that any director or other officer had in any way been concerned in taking usury, he lost his seat.[4] After 1806 this provision was inserted in the charters.

In respect to discount time the provisions in the various charters varied, the country banks as a rule being allowed to discount for a longer time than city banks, and those discounting on real security for a longer time than those taking only personal security. There was no general law on either the time or rate of discounts, but after 1806 each was regulated by a clause of the charter. The Mechanics' Bank discounted notes or bills on personal security for 120 days; on property security the maximum time was two years.[5] For the Hagerstown Bank the discount time was six months.[6] In Baltimore at this time the major part of the loans were upon personal security. It was impossible to obtain collateral for any considerable portion of the business. Loans were made to some extent also upon real security; in the country most loans were secured either primarily or ultimately by real property.

A feature peculiar to the Scotch banks was introduced into Maryland by the Farmers' Bank at Annapolis; this was

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[1] *Federal Gazette*, etc., Apr. 10, 1804.
[2] Md. Laws, 1814, ch. 9. Ibid., 1804, ch. 61.
[3] Ibid., 1807, ch. 26. [4] Ibid., 1806, ch. 19.
[5] Ibid., 1806, ch. 19. [6] Ibid., 1807, ch. 26.

the system of cash accounts. An account of this sort might be opened on application of any farmer, mechanic or manufacturer for sums from $100 to $1000, whereby the party might draw or pay in any sum not less than $50 at any one time, and on which settlements were to be made semi-annually, the party drawing cash to pay interest for what he might owe at 6 per cent. per annum, to be deducted on opening the account, and to be allowed interest on all sums returned from the time of payment. The party opening the account had to give good personal or real security. The directors were not obliged to lend money on such cash accounts to a greater amount, at any one time, than one-fifth part of their capital.[1] An attempt was made in 1804 to introduce this feature into the practice of both the Bank of Baltimore and the Union Bank.[2] A special object of the formation of the Farmers' Bank was the encouragement of agriculture, and this was practically but another method of loaning upon real security, since most of the bank's patrons were farmers with little other available security. Anne Arundel was one of the most fertile and progressive sections of the State, and therefore one where loaning upon real security would most likely be successful, since there land found comparatively ready sale.

The practice of paying interest on deposits was first introduced in America by the Farmers' Bank of Maryland.[3] Deposits for a period of at least six months drew interest at the rate of 4 per cent. per annum; 3 per cent. was paid on deposits drawable on demand. The directors of the Farmers' Bank were empowered to issue notes on such deposits, as they might judge prudent, up to the amount of the deposits. The practice of paying interest on deposits became general at a later time.

It has been impossible to ascertain the amount of the circulation of Maryland bank notes at this time. Mr. Blodget,

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[1] Md. Laws, 1804, ch. 61.

[2] *Federal Gazette*, etc., Nov. 14, 1804. A Brief Exposition, etc.

[3] Md. Laws, 1804, ch. 61.

in his "Economica," places the circulation of all the banks of the United States for 1804, 1807 and 1809 at $14,000,000, $18,000,000 and $19,000 000, respectively. This is probably only an estimate; however, we may be safe in the inference that no great expansion had yet occurred. The United States Bank and its branches were efficient in keeping State bank issues in check; also the prohibition from issuing notes of a less denomination than $5, acted as a restriction upon issues, in that it kept an amount of small coin always in circulation.

It was usual for the banks to try to maintain an amount of cash on hand equal to one-third of their circulation. This proportion was familiar from the custom of the Bank of the United States and of the Bank of England.[1] There was no legal requirement in Maryland fixing the amount to be held.

Dividends of profits were made semi-annually. The directors were personally liable for dividends declared in excess of profits.[2] Up to 1795 the Bank of Maryland divided 12 per cent. annually. In 1804 it divided 9 per cent., and the Bank of Baltimore 10 per cent.[3] As banking capital increased the profits of the individual banks slowly declined. In 1810, 8 per cent. per annum was perhaps the average.[4] In March, 1804, Bank of Baltimore stock was selling at $500 per share (par $300). In the latter half of the year it dropped to $400, on account of the establishment of competitive banks. Union Bank stock at this time, before the bank was chartered, was selling at $8 to $10 premium.[5]

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[1] A Brief Exposition, etc., p. 38.
[2] Md. Laws, 1806, ch. 19.
[3] *Federal Gazette*, etc., Mar. 7 and Aug. 14, 1804.
[4] Ibid., Mar. 26, 1810.
[5] Ibid., Aug. 14, 1804.

CHAPTER II.

Banking in Maryland, 1810-1864.

1. *A Period of Expansion, 1810–1818.*

The development of State banking in Maryland proceeded slowly and naturally from the establishment of the Bank of Maryland in 1790 with $300,000 capital, up to the end of 1807, when the total banking capital was $7,450,000, including $500,000 in the branch of the United States Bank at Baltimore. $5,500,000 of this total had actually been paid in. Extension had been made only in response to an actual demand for increased banking facilities, and in reality it had scarcely kept pace with the rapidly-developing commercial, manufacturing and agricultural interests of the State.

From 1806 to 1810 Maryland industries were in a very unsettled condition, owing to interruptions by the belligerents of Europe. Troublesome interference, the Berlin and Milan decrees of 1807, and the embargo of 1807, had almost ruined Maryland's export trade. In March, 1809, the embargo was raised, and conditions immediately improved; exports jumped from $2,700,000 for 1808 to $6,600,000 for 1809. This period of prosperity was only checked by the war of 1812, and after its termination Maryland trade assumed its normal proportions.

This state of affairs is reflected in the banking history. No increase of banking capital occurred during the years 1806-9. In 1810, coincident with a revival of trade, a period of rapid expansion began, which extended over eight years. It was in part evoked by industrial causes, but was also largely due to the prospective failure of recharter of the first Bank of the United States. The closure of this bank, whose charter expired in 1811, was anticipated in 1810, and throughout the country there was a general and rapid movement of expansion on the part of the State banks to occupy the banking field which was about to be vacated. In Mary-

land, however, the cause of the organization of the new banks was largely industrial, and the purely speculative element was decidedly subordinate.

During these eight years banks were located in the industrial centers of the most advanced counties of the State; fourteen of the nineteen chartered during these years were in the counties. The expansion was an extensive, rather than an intensive, one. There was no increase in the amount of the nominal capital of the old banks; some enlargement may have been effected by calling in additional payments on the shares when the entire capital had not been paid up. This margin was, however, small, since the entire capital of the banks, with two or three exceptions, had been paid up.

The increase of banking institutions began in 1810, when the Assembly granted five new charters for banks, of which four were to be located in Baltimore, the fifth at Elkton, in Cecil county. The Baltimore banks were the Marine,[1] the Commercial and Farmers',[2] the Farmers and Merchants',[3] and the Franklin,[4] and they embodied a nominal capital of $2,700,000. All of these banks organized under articles of association before applying for charters. The Commercial and Farmers' Bank had been under discussion for some time, and its organization had been decided upon in order to bring banking advantages nearer to the merchants in the upper part of the town. Subscriptions to its stock were well advanced, when notice of the projected establishment of the other banks was sprung upon the public by the publication of their articles of association. Quite a sensation was created by the suddenness and the extent of the new enterprises, and efforts were made to consolidate the four into one, or at most two.[5] These were, however, unavailing, and the four banks received charters from the Assembly. The State became a subscriber to the stock of each of them.

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[1] Md. Laws, 1810, ch. 66.
[2] Ibid., 1810, ch. 68.
[3] Ibid., 1810, ch. 77.
[4] Ibid., 1810, ch. 67.
[5] *Federal Gazette*, etc., Mar. 14, 19 and 23, 1810.

The discussion evoked by the organization of these apparently uncalled-for banks was not, however, without fruit. To prevent a repetition of this occurrence the General Assembly immediately passed an act "to prevent the increase of banking companies," by which persons were prohibited from associating for the purpose of forming a banking company without first applying for a charter. Each person acting as commissioner for such parties was made liable to forfeit $2000, and each subscriber $100.[1] The effect of this was to enable the Assembly to control completely the increase of banking companies, and thus to enable them to check at the start the mania which was growing apace in other States.

Great alarm was occasioned in the State in 1812, when it was found that a company had dared to organize under articles of association. The City Bank of Baltimore was formed as a private partnership in 1811, and over $800,000 of its stock had been subscribed before it asked for a charter. In 1812 one was granted which fixed the capital at $1,500,000, of $25 shares, of which 4000 shares were reserved for the State and 27,600 shares were distributed among the counties for subscription.[2] The remainder was taken in Baltimore. There is no evidence that the penalty for violation of the law was imposed upon them.

No other banks were chartered in Baltimore until 1835. In 1813 the monopoly of banking in Baltimore was conferred on the banks then existing.[3] The circumstances under which this occurred will be explained in the next section.

The banks which were organized in the counties were largely to assist the agricultural class, though manufacturing was becoming an important interest, and, especially in the western counties, mining and lumbering operations had already assumed large dimensions.

The Elkton Bank was started with the primary object of

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[1] Md. Laws, 1810, ch. 108.
[2] Ibid., 1812, ch. 180.
[3] Ibid., 1813, ch. 122.

aiding the flour trade of that town.[1] And thus special circumstances in each case were of influence. Between 1810 and 1817 banks were established in twelve counties. Following is a list of these banks:

TITLE.	LOCATION.	EST.	CAPITAL.
Elkton	Elkton.	1810	$300,000
Farmers' Bk., Somerset and Worcester	Snowhill.	1811	200,000
Branch at	Salisbury.	1814	. . . .
Cumberland . . .	Allegany.	1811	200,000
Somerset	Princess Anne.	1813	200,000
Conococheague . .	Williamsport.	1813	250,000
Caroline	Denton.	1813	200,000
Susquehanna Bank and Bridge Co. .	Port Deposit.	1814	250,000
Havre-de-Grace . .	Havre-de-Grace.	1814	300,000
Westminster . . .	Westminster.	1816	300,000
Branch at	Fredericktown.	1821	. . . .
Planters' Bank of Prince George's Co.	Upper Marlboro.	1817	200,000
Centreville*	Centreville.	1817	200,000
Farmers' Bank of*	Leonardtown.	1817	100,000
Frederick Co.	Frederick.	1817	500,000
N. and S. Branch Bank of Potomac*	Old Town.	1818	250,000
		Total,	$3,450,000

* Did not open for business.

Summarizing our results, we see that from seven banks in 1809, with a nominal capital of $7,450,000, of which $5,500,000 had been paid in, the number had risen to twenty-two, whose nominal capital was $14,750,000, of which $8,500,000 was paid in. About $500,000 had been withdrawn by the closing of the branch of the United States Bank at Baltimore.

[1] Johnston, History of Cecil County, p. 405.

2. An Industrial Experiment by the Banks; Recharter and Taxation.

The period of duration of all the charters granted by the State, except that of the Bank of Maryland, was specified; 1815 was the time of expiration of all the charters given before that date. When the question of recharter arose, Maryland was in the heat of the internal improvement discussion. The popular favor of this policy was strong, and roads, bridges and canals were being planned on a broad and systematic scale to bring all sections of the State within easy communication of their port, Baltimore. The war with Great Britain was burdening the State and the city of Baltimore with debt, so that they were unable to assist the new schemes financially. Much private property of citizens had been destroyed, and their resources had been otherwise drained by the calls of the State and city for loans. It was strongly urged to sell the bank stock owned by the State, and to invest the proceeds in the various road companies, but the bank stock had been so profitable to the State treasury that the proposition was rejected.

Another circumstance opened up a course of action. A large element of the people was hostile to the banks, either owing to fear of their power or to personal reasons, or to dread of conditions in Maryland similar to those in other States, concerning the horrors of which the periodicals of the day, such as Niles', expatiated with the utmost vigor. The people generally agreed that the banks should pay to the State some return for the considerable privileges bestowed upon them. Under these circumstances it was decided to harness upon the banks the construction of some of the new roads in return for the continuation of their expiring charters. This was by no means the first attempt to tax the banks. Annually, excepting one year, from 1804 on, bills had been introduced for this purpose, but had met opposition in one or other chamber of the Assembly.

Early in 1813 there was passed an act "to incorporate a company to make a turnpike road leading to Cumberland,

and for the extension of the charters of the several banks in this State, and for other purposes."[1] By this act the charters of all the banks in the State were extended to November 1, 1835, upon two conditions—first, that the banks of Baltimore and of Washington county subscribed for as much stock as would raise a fund necessary and sufficient to complete the road to Cumberland; secondly, that all the banks of the State paid annually during the continuation of their charters under this act $20,000 into the treasury, to be used as a fund for the support of county schools, and to be divided equally among the counties. Subscription to the road stock and contribution to the school fund were to be made in proportion to capital actually paid in, or that might be paid in from year to year. The State pledged itself to impose no other tax during the continuation of the act. Managers for the road company were to be chosen by the banks from their stockholders at the rate of one manager for every $25,000 of stock subscribed, though each bank subscribing was allowed to appoint one manager. The charters of banks not complying with the terms of this act were not extended. Unless the banks expressed their agreement to it before October 1, 1813, it was to cease to be effective.

The banks did not agree to the proposition, but certain adjustments were made and embodied in a supplement to the preceding act, which passed the Assembly at the December session of 1813[2] and received the approbation of the banks.

The leading points of difference between the two acts were:

1. The number of banks subscribing to the road was increased. It now included the banks of Baltimore, the Hagerstown, the Conococheague and the Cumberland Bank of Allegany.

2. The president and directors, for the time being, of these banks were specifically incorporated "The President, Managers and Company of the Cumberland Turnpike Road."

3. The charters of the banks were continued to January 1, 1835.

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[1] Md. Laws, 1812, ch. 79. [2] Md. Laws, 1813, ch. 122.

4. The annual tax of $20,000 for the school fund, apportioned among all the banks of the State, was changed to a tax of twenty cents on the hundred dollars of capital paid in, or paid in thereafter. This provision was to come into operation January 1, 1815. The banks could exempt themselves from this tax by paying to the treasurer before January 1, 1816, $200,000.

5. The fund was pledged for the establishment of a general system of free schools throughout the State, and was to be equally divided among the counties. This fund was to be kept separate from the general funds of the State, and was to be invested, together with the dividends from it, in the shares reserved for the State in the Commercial and Farmers' and the Mechanics' Banks of Baltimore, and an annual report thereof to the General Assembly was required. The road became the property of the banks.

Banks accepting these provisions were continued until 1835; those neglecting them forfeited their charters. On the other hand, the State pledged itself to the banks to impose upon them no other tax during the continuation of this act, and to the banks of Baltimore it promised to grant a charter to no other banking institution to be established in the city or precincts of Baltimore before January 1, 1835.

The banks did not regard the compulsion to subscribe the road stock as a very serious burden. It was expected that the tolls would be of considerable amount, and that after a few years the stock would be a valuable resource. All the banks of the State agreed to the act within the specified time limit or shortly thereafter, and were absolved from the penalty of forfeiture of charter.[1]

This same idea was frequently acted upon thereafter. In 1821 the banks expressed their willingness to undertake the construction of the Boonsborough and Hagerstown turnpike road. The president and directors for the time being

[1] Md. Laws, 1816, ch. 99. Ibid., 1815, ch. 167. Ibid., 1818, ch. 147. Ibid., 1821, ch. 131.

of the banks of Baltimore (except the City Bank) and of the Hagerstown Bank were accordingly incorporated the Boonsborough Turnpike Road Company.[1] In return the charters of the banks which complied were extended to 1845. The tax of twenty cents on the hundred dollars of capital paid in was continued, and the pledge of the State to impose no further taxation during the continuation of the act was renewed, as well as the one to charter no new banks in Baltimore or its precincts during the continuation of the act. Release from the school fund tax could be obtained by payment to the treasurer of $100,000 before January 1, 1823. In other respects the act was like the one incorporating the Cumberland Turnpike Road Company.

Likewise in 1827 the charters of the Farmers' Bank and its branches, the Farmers' and Mechanics' Bank of Frederick County, and its branch, and the Frederick County Bank were extended to January 1, 1845, on condition that they subscribe $10,000 each to the Frederick and Harper's Ferry road, or to one of several other roads mentioned.[2] The Susquehanna Bank and Bridge Company was incorporated to build a bridge over the Susquehanna, with the privilege of doing a banking business with one-half its funds.[3] The Washington County Bank was given a charter in 1831, on condition that it subscribed $10,000 to the Williamsport and Hagerstown road.[4] In other cases the banks subscribed of their own choice. The Baltimore and Havre-de-Grace,[5] the Monocacy and Frederick,[6] the Rockville and Washington[7] road companies and others received aid in this manner. The Commercial Bank had the privilege of investing $300,000 in steamers which should trade with Baltimore.[8] Investment in the various improvement schemes was very common, but the incorporation of banks as road-constructing companies

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[1] Md. Laws, 1821, ch. 131. [2] Ibid., 1824, ch 92. Ibid., 1827, ch. 42.
[3] Ibid., 1814, ch. 66. [4] Ibid., 1829, ch. 198. Ibid., 1831, ch. 133.
[5] Ibid., 1814, ch. 69. [6] Ibid., 1829, ch. 35.
[7] Ibid., 1827, ch. 42. Ibid., 1828, ch. 119. Ibid., 1829, ch. 198.
[8] Ibid., 1835, ch. 289.

is rather a novel feature. The effect of investments of this sort upon the banks will be discussed in a later section.[1]

The idea of a tax on bank stock to raise a school fund was not new in 1812. In 1810 a bill to tax canal, road and banking corporations for this purpose passed the House of Delegates, but was defeated in the Senate.[2] The tax on bank stock laid by the law of 1813, chapter 122, continued in force until 1863, and yielded a fund varying in amount from $30,000 to $40,000 per annum. No other tax was imposed up to 1835, at which time the act expired.

3. *Suspension of 1814.*

The suspension of 1814 was a general one, but the causes leading up to it were of especial force in Maryland. The demand for specie was increased by the commercial restrictions caused by the blockade of United States ports. Maryland exports, from $6,833,000 in 1811, dropped to $3,787,000 in 1813, and $248,434 in 1814. The sudden drop in Maryland's exports of produce in 1814 necessitated other modes of payment for her imports.[3] The Eastern States, too, had imported largely, and specie for repayment was required. The enlargement of the bank circulation in the Middle States had given the Eastern States an advantage; paper money replaced the specie circulation. Excessive issues were called forth by the loans to the National and State Governments, which were necessitated by the war. The Eastern States were unfavorable to the war, and in great measure they withheld subscriptions to the loans, so that the burden was thrown upon the Middle States, and especially upon the cities, Baltimore, Philadelphia and New York. Of the United States loans of 1812, 1813 and 1814, more than $2,500,000 was subscribed in Baltimore.[4] In addition to this, the banks loaned the State over half a million dollars in

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[1] See p. 60, et seq.

[2] *Journal of House of Delegates*, 1810, p. 37.

[3] Cf. An Address by the Directors of the Banks of Phila., Aug. 30, 1813.

[4] Niles, May, 1812, and Apr. 3, 1813, and 1814.

1813 and 1814.[1] The restrictions upon the banks from making large loans to any State without the consent of the General Assembly[2] were removed, and the banks were allowed to loan Maryland up to the amount of their actual capital, and to the United States up to one-third of this amount.[3] In addition to this, the loans of private individuals to the State and to Baltimore fell to considerable extent upon the banks.

The transmission abroad in 1811 of over seven million dollars which had been invested in the Bank of the United States, had perhaps some influence. The expansion of the State bank currency to fill up the place made vacant by the expiring bank was of much greater importance. The rapid multiplication of banks and the loss of the centralizing influence of the United States Bank almost destroyed entirely the degree of consolidation and unity which had been the effect of the creation of the United States Bank. The banks of the leading commercial cities now exercised this function, but more weakly, since the number of centers was larger and the relations to the other banks were not so stringent. Each bank now dared to issue more than formerly; the facility of getting discounts was increased, and the demand for them became greater. There was an abundance of paper money, but little gold and silver; prices were high.[4] No resistance could be offered to the heavy demand for specie from the Eastern States and Canada, and the South and Southwest, which had been remitting in specie to the Middle States, "closed the profitless traffic." The alternatives were a restriction of discounts and circulation or suspension of specie payments. The following incomplete returns illustrate these facts:[5]

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[1] Reports of Treas. for Western Shore of Md. [2] See p. 28.
[3] Md. Laws, 1812, ch. 1, June session. Ibid., 1813, ch. 22, May session. Ibid., 1814, ch. 70. [4] Cf. Niles.
[5] Gallatin, Considerations on the Currency, etc., p. 101.

MARYLAND.	NO. OF BANKS.	CAPITAL.	CIRCULATION.	SPECIE.
Jan. 1, 1811,	6	$4,895,202	$2,730,000	$850,000
Jan. 1, 1815,	17	7,832,002	3,970,000	740,000
Jan. 1, 1816,	20	8,406,782	5,615,000	760,000

Political conditions determined the turn of affairs at this time. During 1814 the British army directed its operations against the Middle and Southern States especially; in August Baltimore was threatened. Such alarm was occasioned that the banks suspended and had their specie conveyed to places of safety. Philadelphia and New York banks immediately followed. The condition of Maryland banks, while not strong, was by no means desperate, though they would doubtless soon have been driven to suspension, since debtor banks in the South had ceased paying in specie, even if political conditions had not made it necessary.

Baltimore bank notes remained at par or very small discount in Maryland; the notes of the country banks depreciated somewhat more. Immediately after the restoration of peace in 1815, confidence in the bank notes began to rise. In February and March, 1815, Maryland notes generally, excepting those of three or four country banks, were at par within the State, and discount at Philadelphia and New York was only 2 or 3 per cent. Considerable pressure was brought to bear on the banks at this time to resume specie payments, but exchange was still high, and besides some of the country banks had extended their circulation to dangerous limits. Altogether they were unwilling to resume.

Congress, at the suggestion of the Secretary of the Treasury to force a return to specie payments, authorized the establishment of the second Bank of the United States, and it also directed that after February 20, 1817, the public revenue should be received in "lawful currency," i. e., specie, treasury notes, United States bank notes and notes of other specie-paying banks. The Secretary of the Treasury was ordered to take such measures as were necessary to cause as

soon as possible the payment of all debts due to the United States in lawful money. Accordingly, after October 1, 1816, only lawful money was received by the government for debts less than five dollars.

The Secretary of the Treasury endeavored to secure the agreement of all the banks to resume February 20, 1817. Maryland and Pennsylvania banks objected, and insisted upon July 1, 1817, instead, as the earliest date at which they would be prepared to resume. However, on February 1, 1817, at a meeting of representatives of the banks of New York, Philadelphia, Baltimore and Richmond, held in Philadelphia, it was decided to accede to the request of the Secretary of the Treasury and resume February 20, under certain provisions. The Secretary of the Treasury accepted the conditions, and accordingly agreed not to withdraw the public deposits from the State banks before July 1, 1817, or before the discounts of the United States Bank reached $2,000,000 at both New York and Philadelphia and $1,500,000 at Baltimore.[1] Also the Bank of the United States promised to aid the State banks with its resources to any reasonable extent. This compact and its support by the Bank of the United States enabled the resumption of specie payments to be made February 20, 1817.

Preparation for resumption and anticipation of the power of the United States Bank compelled the State banks to strengthen and to restrict issues. This they did by a very severe curtailment of discounts. In January, 1816, the notes in circulation of Maryland banks amounted to $5,615,000. Within the year they were reduced by $2,000,000, or more than one-third. The deposits suffered slight diminution, so that the restriction of discounts must have been at the same rate. The result of this would inevitably have been widespread commercial disaster, but the Bank of the United States met the demand. Within two months its discounts ran up to $20,000,000, and by October 31, 1817, they had

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[1] Niles, Aug. 24, 1816. *National Intelligencer.*

reached $33,000,000. The passage to specie payments, therefore, caused little inconvenience to Baltimore banks. Some of the more reckless country banks, which had extended their circulation too far, were in a precarious condition and were practically insolvent. In Baltimore almost as much specie was deposited as was withdrawn.[1]

The administration of the Baltimore banks during the suspension was careful, but the majority of the country banks, becoming irresponsible, sacrificed safety to profit. The position of the country banks, too, was peculiar, in that they had just been established. Five of the nine then existing had been chartered in 1813 and 1814. The deposits in the country districts being relatively smaller than in the city, they were forced to depend more upon their circulation for profits.

The following table will show the circulation of Maryland banks before, during and after the suspension:

	BANKS.	CAPITAL.	CIRCULATION.
Jan. 1, 1811,	6	$4,895,200	$2,730,000
Jan. 1, 1815,	17	7,832,000	3,970,000
Jan. 1, 1816,	20	8,406,700	5,615,000
Jan. 1, 1817,	22	8,708,800	2,727,000
Jan. 1, 1818,	22	8,708,800	1,742,000

The plethoric state of the currency was reflected throughout 1815 and 1816 by the high prices. The abundance of money was a matter of comment. All specie disappeared from Maryland at an early date, and the very serviceable regulation,[2] which prohibited the issue of notes of denominations under five dollars, was of necessity repealed in 1814.[3] Notes were the sole currency, even for small change,[4] until November, 1817.[5]

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[1] Niles, Mar. 15, 1817. [2] Md. Laws, 1812, ch. 134. [3] Ibid., 1814, ch. 27.

[4] The lowest denomination issued in Maryland was six and one-fourth cents. Niles, Apr. 11, 1818.

[5] The law of 1814, ch. 27, was limited to Nov. 20, 1815; it was continued in force by the law of 1815, ch. 220, to Nov. 20, 1816, and to Nov. 20, 1817, by law of 1816, ch. 267.

It is impossible to find out the rates of dividends declared by the banks during the suspension, but the quotations of stock are a good indication of its profit. The following table gives the quotations for Baltimore bank stock for September 2, 1815.[1]

BANK.	PAID IN PER SHARE.	SELLING PRICE.	ADVANCE PER CENT.
Maryland	$300	$360	20
Baltimore	300	350	16.66
Union	50	63	26
Mechanics'	15	22.50	50
Franklin	17.50	23.50	34.39
Commercial and Farmers'	25	34	36
Marine	25	30	20
City	15	20	33.33
Farmers' and Merchants'.	45	53	17.33
		Average,	28.19

The weakest of the country banks, whose notes were greatly depreciated, continued to pay 8 per cent.

At the time of suspension specie commanded a premium of 10–12 per cent. in Baltimore; in August, 1815, the premium had risen to 12–17 per cent.; by November it was 19–22 per cent. advance; in August, 1816, it was 14–15 per cent. premium; after this the premium rapidly declined.

Maryland bank notes fell to 5–10 per cent. below par immediately after the suspension. As soon as peace had been declared in 1815, they recovered and rose to 2–5 per cent. discount, and soon stood at par in Maryland. By August, 1815, they were at par at home, and at 2½ per cent. discount in Philadelphia and Richmond. In November they were at 3 per cent. discount in Philadelphia and 19–20 in Boston.[2] Nearly all Maryland notes circulated at par or small discount in Maryland after the first months of 1815. The mass of

[1] Niles, Sept. 2, 1815.

[2] Niles, Sept. 2, 1815.

paper from other States rendered the situation inconvenient and confusing. The notes of each foreign bank had their rates of exchange, varying from time to time, and with the distance of the place of issue. The ignorance of the condition of many distant banks and of the value of their notes, gave rise to another expense upon the public, the note broker. Their service was the purchase and exchange of the unknown and useless notes which were in circulation, but the cost of this service was an exorbitant one. The character of the men who entered this pursuit was usually such that the evil possibilities of this office were carefully developed. Endeavor was made to crush them out of existence by expensive licenses. In 1819 Maryland passed a law fixing the license at $500 per annum,[1] and requiring bond to the amount of $20,000 and an oath to act without fraud and collusion. However, their service was a real one, and without them troubles increased, so that a milder law was soon substituted.

4. *Crisis of 1818.*

The Bank of the United States, immediately after its charter, began to discount freely in order to relieve the pressure upon the State banks. Within eight months after the resumption the discounts of the bank reached $33,000,000. The Baltimore branch discounted very freely, and at this place alone the discounts were more than $8,000,000. An inflation was produced which unchartered companies did much to increase. The exact amount of influence upon the inflation from unchartered banks cannot be estimated. The usual widely speculative tendencies which accompany an inflation of the currency were present.

The condition of the Bank of the United States became a matter of great concern, and it was feared that the reckless administration of the branch at Baltimore would bring it into further peril. Its notes in circulation amounted to $8,000,000; its specie was low, never more than one-eleventh

[1] Md. Laws, 1818, ch. 210.

of its cash liabilities. Under these circumstances a policy of restriction was decided upon July 10, 1818. Before January, 1820, the discounts of the bank had been reduced $10,-000,000. The State banks necessarily followed its lead. The Baltimore city banks did not extend their circulation to any considerable degree during the later months of 1817 and the first half of 1818. The restriction which had been begun before the resumption of specie payments was continued during the time of the inflation. The large discounts of the Baltimore branch bank rendered this the easier. During the year 1817 the circulation of the Baltimore banks was reduced from $2,727,000 to $1,742,000, or about 40 per cent.

The report became widely spread early in 1818 that the Baltimore banks were in a critical condition, and that a suspension of specie payments was imminent. The report probably originated in some knowledge of the losses which Baltimore banks were then undergoing,[1] though the full extent of these losses was not yet apprehended. During the year 1817 the cash liabilities had been diminished from $4,835,000 to $3,440,000. The banks regarded themselves as sound.[2] The wide extension of discounts at the Baltimore branch bank had likely created the impression that all Baltimore banks had out much paper. In fact, there seems to have been little danger of a suspension. The condition of some of the country banks was very different. Most of them were solvent, but at least three had practically never redeemed their notes in specie since 1814. The weakest ones were the Elkton, Somerset, Somerset and Worcester, Cumberland, and Susquehanna Bank and Bridge Company.

The irregularities in the administration of the Baltimore branch bank were upon discovery immediately examined into, and the amount of its discounts was decidedly lessened. Baltimore State banks continued their restriction more gradually throughout 1818, 1819, 1820 and 1821. For the items of their cash liabilities, see Appendix, p. 139.

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[1] See pp. 60 and 67.

[2] Niles, Dec. 27, 1817.

The drain upon the banks for specie, caused by the more active demand for it North, impelled them to a policy of restriction. The brokers were always very sensitive to any slight advantage to be gotten by an exchange at the bank of notes for specie. Throughout 1818 notes were returning to the banks for redemption and their specie was being drawn out for sale at an advance. To prevent a decrease of the specie reserves, the Legislature early in 1819 attempted to control the natural rates of exchange. It was made unlawful to buy or sell gold or silver coined for a greater sum in notes than the nominal value of such notes. The penalty for violation was forfeiture of double the sum of gold or silver bought or sold, or imprisonment not exceeding one year.[1] Importers of specie were excepted from the action of this provision. These regulations, so far as they referred to the sale of foreign gold and silver coin, were repealed in 1823.[2] The law was, of course, unable to control such transactions; its natural effect was to add to the price compensation for the risk incurred.[3]

The continued contraction of Baltimore State banks and of the United States branch bank, the latter a more extensive and rapid one, produced a very severe effect upon Maryland industry. Debts contracted during the inflation of 1817 and 1818 became payable after the currency had been reduced. The result was that property everywhere was sacrificed to pay for the speculation and extravagance of the previous years. Bankruptcies were common, and for immense amounts. The *Federal Gazette* of October 18, 1819, has six columns of applicants for benefit of the insolvent laws; Niles for May 5, 1821, mentions 350 applicants. The low price of grain added to the troubles of the agriculturists. By 1822 liquidation had taken place, and the financial condition of the State was much improved.

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[1] Md. Laws, 1818, ch. 191. [2] Ibid., 1823, ch. 147.
[3] Niles, July 24, 1819.

5. *Condition of the Banks after the Crises of 1814 and 1818.*

The crucial period of 1814-20 resulted in great loss to Maryland banks and effected a reduction of banking capital both by the enforced insolvency of some and by a diminution of the capital of others. The losses of nine country banks and of one city bank resulted in insolvency; other Baltimore banks were compelled to reduce their capital stock.

The weaker organization of the country banks, as compared with the city banks, has already been mentioned.[1] This fact, together with the locking up of their resources in real estate, due to the low price of grain and consequent agricultural depression which compelled the banks to take securities in payment of money loaned, kept the majority of the country banks from a permanent resumption of specie payments in February, 1817. Most of them resumed temporarily, but were unable to stand the strain. They had issued proportionally more than the city banks. Of the $5,615,000, the total circulation of Maryland banks in 1816, at least one-third belonged to the country banks, whereas their paid-up capital was less than one-fourth of the total capital. At the same time they were unable to convert their resources into a ready form. The result was that they were in a state of chronic suspension from 1814 to 1820. Throughout 1817-20 their notes were much below par, ranging in discount from 10 to 90 per cent., so that even brokers refused to buy them.

In February, 1819, steps were taken to compel these banks to pay specie or forfeit their charters, by the passage of an act[2] which provided that persons obtaining judgment for debt against banks might demand interest at 6 per cent. per annum from the time when payment was requested. Upon refusal or neglect to pay in specie, any county court might order to be issued a *scire facias* to show cause why its charter should not be declared forfeited. The court, after investi-

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[1] Cf. p. 70.

[2] Md. Laws, 1818, ch. 177.

gation, might declare the charter forfeited, and might appoint three commissioners to settle up the affairs of the bank. The interests of other creditors were to take precedence of those of stockholders. Notes of the bank were receivable by the bank for debt at their nominal value. The commissioners were allowed a commission not exceeding 5 per cent. Banks which had paid specie for their notes from May to October preceding the passage of the act, were exempted from its force until January, 1820. Early in 1820 the act was suspended until the beginning of the year 1821.[1]

The suspension of the act protracted for a year the existence of the weak banks. At the end of 1820 eight of the thirteen country banks signified to the Legislature their intention of closing, and asked release from the school-fund tax. This was granted, but the banks were forbidden to make any new discounts, and dividends could be made only after all the debts were paid.[2] In most cases the directors closed up the business, though three commissioners were appointed by the Legislature for the Cumberland Bank of Allegany at its request.[3] A list of these banks, with their dates of incorporation and their paid-up capital, is here given:

BANKS.	ESTABLISHED.	CAPITAL.
Elkton	1810	$110,000
Conococheague	1813	157,500
Cumberland	1811	107,862
Somerset and Worcester	1811	90,000
Somerset	1813	195,850
Caroline	1813	103,057
Havre-de-Grace	1814	132,540
Planters' Bank of Prince George's Co.	1817	86,290
	Total,	$982,622

[1] Md. Laws, 1819, ch. 154.
[2] Ibid., 1829, ch. 170. Ibid., 1820, chs. 102, 97, 116, 190 and 189. Ibid., 1824, ch. 163. Ibid., 1819, ch. 142.
[3] Ibid., 1823, ch. 144.

It is very difficult, at this time, to obtain any exact information of the particular circumstances attending each of these failures. The banks made no annual reports to the State Treasurer, and, at that time, newspapers were not generally established in the counties. We cannot estimate the loss from the failure of these banks. The liability of the stockholders for the amount of their shares most likely availed little, since a large part of the stock had been paid in stock notes, which, in case of failure, were liquidated by the return of the certificates of stock. Thus all loss above, perhaps, the first instalment of capital which was required to be paid in specie or the notes of specie-paying banks, was thrown upon the noteholders and depositors. The acceptance of stock of a bank in payment of debts due to it, was legalized for the Bank of Caroline,[1] and for the Planters' Bank of Prince George's County.[2] The certificates of deposit of any bank were also made a lawful tender to that bank for debt.[3]

The resources seem to have been of little value in most cases, so that it is probable that considerable stock was lost. The Bank of Caroline sold its debts to the highest bidder.[4] On the other hand, the Havre-de-Grace Bank closed up creditably. It laid aside a fund to meet outstanding notes[5] and established an agency in Baltimore, the Franklin Bank, for this purpose.[6] Generally noteholders suffered much in disposing of their notes at a sacrifice in haste to realize upon them immediately after failure was openly acknowledged.

The failure of the Elkton Bank was charged to a disaster in the flour trade of that town, with which the bank was closely connected. The bank had been very weak for several years, and had ceased to declare dividends. Though practically insolvent before, it failed utterly in 1822; yet it did not close entirely until 1830, when the Legislature pro-

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[1] Md. Laws, 1824, ch. 163. [2] Ibid., 1831, ch. 176.
[3] Ibid., 1824, ch. 199.
[4] Ibid., 1824, ch. 163. Niles, Aug. 26, 1820.
[5] Md. Laws, 1825, ch. 151. [6] Niles, Nov. 15, 1823.

vided for its closing on the same terms as the other banks, and allowed it ten years to effect this.[1]

The Planters' Bank of Prince George's County after a time resumed business. In August, 1829, it again failed. The deficiency in assets in this case amounted to $16,000, which was charged to embezzlement by the cashier. Its notes, of which there were then $15,000 in circulation, were at 30–40 per cent. discount. Its stock was quoted at 20 per cent. discount.[2]

During the period 1814-20 the Baltimore banks were also undergoing severe losses. The traceable causes of this are found to be maladministration, bad practice and poor investments, operating singly or together. The Mechanics' and City Banks lost heavily from maladministration. The effect of the practice of granting renewals of notes from time to time without proper consideration of the changes in the financial ability of the endorsers will be noticed in the next section.[3] The banks generally were considerably affected by losses through this practice. The Union Bank perhaps lost most heavily in this manner; in fact, its directors decided to alter its policy and reduce its personal notes and increase those granted upon real security, and this plan was followed from 1820 to 1830.[4]

The third cause was general in its effects, and it inflicted loss proportionately on all who were compelled by the law of 1813, chapter 122, and subsequent laws, to subscribe to the various improvement schemes. As far as we have been able to estimate these subscriptions, they amounted to over $1,500,000. The cost of building the roads was always much greater than the computation. They were in no sense a good investment for the banks. The best of these stocks paid no dividends at all for a number of years, and then perhaps they paid 2 or 3 per cent. per annum, seldom more;

[1] Johnston, Hist. Cecil County, p. 405. Md. Laws, 1834, ch. 288.
[2] Niles, Aug. 29, 1829. Ibid., Mar. 20, 1830. [3] See p. 67.
[4] Report of Union Bank to Stockholders, 1830.

after a few years they ceased to pay at all. This is the history of nearly all of these improvement companies in Maryland.[1]

The only failure which occurred in Baltimore at this time was that of the City Bank, which failed in 1819. Some account of its affairs will illustrate the extreme form of reckless banking.[2] The cashier had entire control of the concern, and ran it according to his own ideas. The causes of loss were mainly negligence and embezzlement. Many accounts, especially the largest ones, were not posted up; nearly every one was incorrectly kept; in some cases no account at all was on the books. Individual accounts amounting to hundreds of thousands of dollars were not settled for three or more years in some cases. Under such careless supervision embezzlement was easy. All the officers and clerks (except one) had received large discounts; the directors also received discounts without proper security.[3] The overdrafts amounted to $426,000.

The immediate occasion of the failure was a call upon it by the branch of the United States Bank at Baltimore,

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[1] Let us examine briefly a single example. The Cumberland turnpike road was the most important and most promising of these undertakings. Between 1816 and 1822 the banks were required to pay their subscriptions to it, amounting to more than $1,000,000, or 56,000 shares at twenty dollars the share. After several years without a dividend, in 1830 it was paying three per cent.; that is, its value capitalized at six per cent., the usual rate got by the banks, was $500,000. In 1841 the rate of dividend had declined; the capitalized value was $333,333. The market price of shares whose par was twenty dollars, was two and one-quarter dollars; the total market value was $126,000. (Report of Union Bank to Stockholders, 1830.) In other words, within a period of twenty years the million dollars of stock was almost an entire loss. When we consider that the actual capital of the banks which subscribed was about $8,000,000, we immediately see what an enormous part of their capital was unproductive and ultimately a loss. Cf. p. 90.

[2] Report to Stockholders of City Bank of Baltimore, Oct. 20, 1819. Niles, Oct. 30, 1819.

[3] Niles, June 5, 1819.

which it could not meet. A run upon it was the result. It extended to other banks, but all resisted it ably except the City Bank, which could only pay its notes under five dollars in denomination in specie.

Statement of the Condition of the City Bank of Baltimore, October 18, 1819.

ASSETS:

Bills discounted:—			
Well secured		$571,065.21	
Doubtful		28,180.89	
Insolvent		43,792.50	
			$643,038.60
Real estate			37,000.00
Cumberland Road stock		$39,569.41	
Baltimore Exchange Building . .		10,000.00	
			49,569.41
Cash, specie.		$3,061.62	
Notes of Baltimore banks		4,475.00	
Notes of insolvent banks		1,915.87	
			9,452.49
Due from banks (supposed) . . .			4,079.84
Overdrawings			426,083.78
Fifty-nine persons in the list, all but eleven for less than $1000; most of them for less than $100.			
Cashier	$166,548.85		
His friend	185,382.00		
Clerk	30,000.00		
"	15,082.10		
"	6,324.99		
		Total,	$1,181,324.12

LIABILITIES.

Capital		$832,030.00
Notes		70,020.00
Certificates for notes deposited		117,824.03
Small notes in circulation .	$7,000 to	10,000.00
Due to banks		119,429.67
To U. S. branch $87,634.00		
To Baltimore banks . . . 24,000.00		
Unclaimed dividends . . .		5,276.80
Deposits		17,409.53
Sundry small accounts . .		350.00
		$1,172,340.03

In the $571,065.21 of discounts considered well secured, $250,000 or $300,000 is included which at the time of failure was overdrafts of directors or others. One account amounted to $97,000. These were arranged for before the statement to the stockholders was made. The committee estimated the value of the assets at $760,310.08, and the debts due by the bank at $340,310.08, which left a remainder for capital of $420,000. The loss of $400,000 by the stockholders was the greatest one. The notes were ultimately redeemed, though many were sacrificed through alarm immediately after the failure at rates ranging from 10 to 20 per cent. discount.[1] The bank very soon after the failure issued certificates bearing interest at 6 per cent. per annum in satisfaction of its notes deposited.[2] The loss of interest was of considerable amount; over fifteen years were consumed in the settlement; in 1834 it was continued to 1840 to wind up.[3] A part of the stockholders desired to continue the bank, but it was finally decided to close. Effort was made to convict

[1] Niles, July 17, 1819.
[2] Ibid., June 26, 1819.
[3] Md. Laws, 1834, ch. 93.

and punish the embezzling officers, but after a protracted contest it was decided by the court that the action of the defrauders was not punishable.[1]

None of the other banks of Baltimore were driven by their losses to suspension. However, very considerable reductions of capital occurred. The Mechanics' Bank was compelled to reduce its capital by two-fifths, from $1,000,000 to $600,000.[2] In 1827 it was again almost driven to the verge of insolvency by bad management, but a change of its officers brought it out of trouble.[3] On account of losses the Commercial and Farmers' Bank reduced its stock from $1,000,000 to $666,666⅔, or one-third. The Union Bank reduced its capital one-fourth, from $3,000,000 to $2,250,000.[5] These losses were reported to the Legislature in 1819 and permission was asked to continue the payment of dividends without it being regarded as an infringement on the capital.[6] This was granted, and provision was made for refunding the capital. Money already earned was allowed to be divided, one-half to the stockholders and one-half to meet the contemplated loss. Of future earnings three-fourths might be paid in dividends and one-fourth retained to meet the loss until it was finally made up.[7] The tax for the school fund was adjusted to the reduced capital.[8]

The total loss of banking capital by reduction was more than one-seventh. The State lost as stockholder about $64,000, and besides other stock became unproductive.[9] In addition to these losses there were doubtless others of considerable extent which did not become public, and which were made up from profits instead of a reduction of capital being made. Of these we can form no estimate.

[1] Niles, Apr. 21 and Dec. 29, 1821.
[2] Md. Laws, 1821, ch. 167. Griffith's Annals of Balto., p. 179.
[3] Scharf, Chronicles of Baltimore, p. 574. [4] Md. Laws, 1823, ch. 68.
[5] Ibid., 1821, ch. 166. Griffith, Annals of Balto., p. 179. Report of Union Bank to Stockholders, 1830. [6] Md. Laws, 1819, ch. 121.
[7] Ibid., 1819, ch. 141. [8] Ibid., 1826, ch. 215.
[9] Griffith, Annals of Balto., p. 251. *Journal of House of Delegates*, 1828 and 1829.

Summarizing the results, we see that after the critical period of 1814-20, almost one-half (nine out of twenty-one) of the Maryland banks failed, representing a capital of $1,821,162, or more than 22 per cent. of the entire active capital. In Maryland and Pennsylvania alone of the Eastern States was the rate so high, though about the same rate prevailed for the country as a whole. For the United States the failures of State banks amounted to $30,000,000 out of a total of $140,000,000. The total loss of capital in Maryland by failures and reduction was about $3,000,000, or one-third of the paid-up banking capital.

This period of trial and discipline was not without its salutary effects. It removed the whole mass of weakly organized country banks which had been only a disturbing element. The agricultural conditions which had called them into existence were now rapidly changing. Instead of the boom of the early years of the century, which Maryland wheat lands experienced, developed by Baltimore commerce, this commerce was stationary, perhaps declining a little, and Baltimore was beginning to take her place as a manufacturing city. This meant a slower development for agriculture.

The ideas of banking, too, were greatly changed. The period of excessive profits was regarded as past, and the banks endeavored by care and economy to make up what they had lost by laxness and speculation. From 1823 to 1830 may be regarded as a period of recuperation, during which the banks were endeavoring to recover from the effects of the preceding decade.

6. *Practice of the Banks.*

It was during the expansion of 1810-17 that the practice first became prevalent in Maryland of paying subscriptions to the stock of banks with stock notes. It was charged that this occurred in the case of every bank, except two, which was established in Maryland between 1811 and 1818.[1] These were all country banks, and their organization was looser

[1] Niles, Feb. 28, 1818.

than that of the city banks. The action of these banks in the crises of 1814 and 1818 indicates their weakness. A part of the capital, usually about one-third, was required by the charters of these banks to be paid in gold or silver or the notes of specie-paying banks, before they could begin business. No manner of State inspection was provided to insure obedience to the law. The payment of the remainder of the stock was left entirely in the charge of the directors. The plan followed was briefly this: Allowing that the first instalment of the capital was, as required, paid in specie or the notes of specie-paying banks, then the subscriber could obtain discounts to the amount of his paid-up stock; with this he could pay his second instalment, and thus on until his entire subscription was paid. If the bank fared well, he enjoyed dividends on the whole amount of his stock; if it failed, he could absolve his indebtedness to it by paying in his certificates of stock. Thus he had all to gain, and was irresponsible for losses.

The bad condition of the country banks from 1816 to 1820 may be ascribed to two chief causes: first, their weak organization; and second, their loans on real estate. Loans had been secured by farmers during the inflation of 1816-17; in 1817 the prices of agricultural products fell, and the farmers were unable to meet their obligations. The banks, entering upon a restrictive policy, were anxious to retire as much paper as possible; renewal of loans was refused and in many cases the borrower became bankrupt. At one time early in 1818, the Somerset Bank had 150 suits at law against individuals for debt. In this way much real estate fell into their hands for which at that time the price was low and ready sale could not be found. With their resources locked up in real estate, they were unable to meet their cash liabilities, and were in almost continual suspension from 1817 to 1820. Their paper was either at a great discount or ceased to circulate altogether.

In all the banks reforms were needed. Directors and officers were still able to use their positions to secure loans

and discounts in extraordinary amounts. The administration of banks at this time was practically controlled by the cashier. The president was largely a nominal officer, and the one elected to it was supposed to devote but a small portion of his time to its duties. A change in this respect began in 1821, when the Union Bank decided that it would be conducive to better management to have a president who would devote to the office all the time required, and who should receive for his services proportionate recompense.[1]

Considerable danger and loss resulted to the banks from their laxity in permitting the renewal of notes. Some of the charters limited discounts upon real security to a certain percentage of the capital, usually one-eighth; in others no limitation is mentioned. Aside from this, it was the custom among the city banks to discount chiefly on personal security. The discounts on personal security were to those on real in the ratio of 9-12 to 1. Two names were uniformly required on each paper, one of which had to be of undoubted credit. The banks were too accommodating in permitting renewals; it was common for paper to run four or five years without change in the endorsement.[2] In a time when financial matters undergo such violent convulsions as between 1814 and 1820, the danger of such a practice cannot be exaggerated. Endorsers who were sound in 1814 were very unsound in 1818. The losses of Baltimore banks on bad paper between 1816 and 1821 were enormous, and most all of the banks were seriously affected in this way.[3]

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[1] Report to Stockholders of Union Bank, 1821.

[2] Report to Stockholders of Union Bank, 1820. Cf., p. 60.

[3] The following example will illustrate this point as well as others of which we have just been speaking, the power of the cashier at this time and the manner in which favorites were accommodated. In a report of the condition of the Union Bank on August 26, 1819, among the resources was listed an item of $719,238.59, made up as follows:

$100,000.00	advanced by the Cashier without the knowledge of the Directors.
357,502.39	doubtful paper.
151,293.52	overdrafts ascertained.
110,442.68	deficiency in funds unaccounted for.
$719,238.59	

Almost the entire amount proved an utter loss. The bank was

The varying rates of depreciation of bank notes opened up to the banks the opportunity of buying up their notes at the lowest possible rates. For this purpose special arrangements were entered into with the note brokers, and it was not unusual for a bank to have out agents for this purpose. After 1818 it became illegal for any one to buy, sell or exchange any Maryland bank notes for a less sum than their nominal value, or to employ for the purpose any broker or agent. The forfeit was in each case double the amount of gold, silver or notes so exchanged.[1] The law was ineffective and simply added a risk charge to the price asked for such notes.[2] The practice was common down to the passage of the National Bank Act.

The action of some of the banks with reference to counterfeits upon their notes was also extremely reprehensible. Instead of announcing to the public the discovery of a counterfeit upon their notes, the more unprincipled banks endeavored to keep the knowledge of it as secret as possible, lest their notes of that denomination might cease to circulate and return to them for redemption. Counterfeiting was rendered easy and successful by the great number of banks, each of which had a different style of note, so that unless one were familiar with the particular characteristics of the notes of each bank the imposition of false notes was easy. The poor quality of paper used and the simple engraving made them easy of imitation and increased the temptation to counterfeit them accordingly. Each newspaper usually contained a list of the counterfeits for the warning of the public. In 1827 the penalty for knowingly passing forged or coun-

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saved for the time being by loans from its friends, amounting to $560,000 and by passing its dividends. It finally resulted in loss to the stockholders by a reduction of the capital, amounting to $600,000, or one-fourth of the whole. (Report to the Stockholders of Union Bank for 1820 and 1830. Md. Laws, 1821, ch. 166.)

[1] Md. Laws, 1818, ch. 191. [2] Niles, July 24, 1819.

terfeit notes was fixed at five to ten years in the penitentiary for the first offence, and ten to twenty years for the second.[1]

The Baltimore banks were driven to stop receiving on deposit depreciated bank notes. They were not allowed by law to receive them at less than their nominal value, while the risk of the solvency of the issuers and the trouble and expense of collecting and sending them home for redemption fell upon the banks. Demand for specie, too, was in many cases the cause of unpleasant relations. The notes, not only of Virginia, Pennsylvania, District of Columbia and other distant points, but also of some Maryland country banks and those of the United States Bank, if payable at distant points, were refused. This action tended naturally to increase the discount upon such notes, and to retard their circulation; the only recourse was to place them in brokers' hands. The banks suffered materially by refusing them.

To secure a freer circulation of their notes, the country banks of Maryland contemplated the establishment of a joint bank just outside of Baltimore. On January 27, 1816, they were successful in procuring a charter under the title of the Consolidated Bank.[2] The capital, $500,000, in shares of $100 each, payable in Baltimore bank notes, was to be apportioned to the banks of Maryland located outside of Baltimore; the directors were to be appointed by the banks. The capitals of the banks subscribing were to be reduced in proportion as they subscribed for stock in the new bank. The charter was to be made null if the Baltimore banks agreed to receive the notes of outside banks on deposit and to reissue them. The project never materialized. Not until June, 1823, did the banks of Baltimore begin again the receipt of all Maryland bank notes on the same terms as their own, and at the same time Pennsylvania and Virginia notes were received on deposit.[3] While the organization is different, this is in principle an anticipation of the Suffolk bank system.

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[1] Md. Laws, 1827, ch. 62. [2] Ibid., 1815, ch. 169.

[3] Niles, June 28, 1823. Ibid., Aug. 23, 1823.

The wider credit of all would have been substituted for the individual credit by the central redemption.

7. *Miscellaneous Legislation.*

It has been said that the charters of the country banks established between 1810 and 1818 were of less strict nature than the earlier ones. Some of these points of difference will now be mentioned. Usually one-third to one-fourth of the first instalment only of the capital was required to be paid in specie; the amount of the first instalment varied from one-third to one-half of the capital. The payment of subsequent instalments was left entirely with the directors, and thus an opportunity was offered for the use of stock notes.[1] In one case, that of the Centreville Bank, to avoid this the charter required the whole capital to be paid in specie.

The State became a subscriber to the stock of two of these country banks, viz., the Elkton and Hagerstown Banks, but usually the provision was made that whenever the State desired to take stock it might increase the capital of the banks and subscribe. Until subscription was made the State appointed no directors, and usually required no annual reports, since it was only as stockholder that it exercised this supervision. Only five of these country banks were required to send reports of their condition to a State officer. However, by a resolution of the General Assembly, passed in 1818,[2] all the banks within the State were required to transmit an annual report in December to the Assembly.[3] The points to be specified in the report were the same as those described heretofore in the charter of the Bank of Baltimore.[4]

In some cases even the nominal limit of debts to twice the amount of capital paid in was omitted, and no limit at all was imposed.[5] These were allowed to discount on property security up to one-fifth to one-eighth of their actual capital. The Mechanics' Bank of Baltimore allowed discounts on the

[1] Cf., p. 27.
[2] Resolution 18.
[3] Cf. ibid., 47, 1819.
[4] See p. 28.
[5] Cf. Md. Laws, 1813, ch. 33.

security of stock up to three-fourths of the stock paid in. As a consequence of their discounting largely to farmers upon real security, the discount term was increased. Only two were limited to sixty-day discounts; for one the limit was four months, for nine it was six months, for two there was no limit.

Directors were forbidden by most all of the charters to receive discounts on different terms from others. The usual limit of discounts to directors was $1000 in one week, or a total of $5000 in all. The president and directors were eligible for reëlection without limit in the bank of Somerset and Worcester. In the five charters which were granted in 1817 and 1818 suspension of specie payments rendered the charter void. The insertion of this provision was a result of the continued suspension of Maryland country banks after the general resumption of February, 1816. Six per cent. was fixed as the legal rate of interest and discount, and usury was forbidden; however, interest calculated according to Rowlett's Tables was made valid.[1]

The issue of small notes was uniformly prohibited by the charters, but this became a matter of special legislation. In 1821 a general law[2] was passed on this subject, called forth by the violations of charter provisions and previous legislation, which made it unlawful, under penalty of $20 fine, for any bank to issue or pay out notes or bills of a less denomination than $5, or of a denomination intermediate between $5 and $10. Persons passing such notes of any incorporated or unincorporated company were liable to a fine of $5 for each offence. This law was the result of a genuine effort on the part of the banks and people to regenerate the currency and get rid of the small "rags." Early in 1820 the banks were freely supplying specie dollars in place of the small notes, but the silver was immediately displaced by notes from the District of Columbia.[3] Finally in September, 1820, the

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[1] Md. Laws, 1826, ch. 99. Ibid., 1832, ch. 152.
[2] Ibid., 1820, ch. 150.
[3] Niles, Jan. 6, 1820.

banks decided to receive for five days all notes under $5, and thereafter neither to reissue them nor issue new ones,[1] and the townspeople in a general meeting agreed to assist in improving the currency by not circulating such notes.[2]

"An act to impose a tax on all banks or branches thereof in the State of Maryland not chartered by the Legislature" was passed in 1818.[3] It enacted that any bank establishing an office or branch in the State without first obtaining the State's authority, should not issue notes except upon stamped paper procured from a State officer and of the denominations $5, $10, $20, $50, $100, $500 and $1000, on which a tax of 10, 20, 30 and 50 cents, $1, $10 and $20, respectively, was imposed. $15,000 annually might be paid in lieu of the above tax. $500 was the penalty for establishing such an office, and $100 was the penalty for circulating notes of such banks unstamped. The direct object of this law was the taxation of the branch of the Bank of the United States located at Baltimore. The law was urged both on general grounds of hostility to the bank and on account of opposition to it by the State banks, who feared its competition and restraining influence; besides, the opinion was general that an outside bank should not be permitted to enter the State on more favorable terms than the State banks. The law was declared unconstitutional by the Supreme Court of the United States in 1819 in the familiar case of McCulloch vs. Maryland, on the ground that it interfered with the execution of one of the implied powers of the government.

Several restrictive measures were the outcome of the speculative character of banking from 1814 to 1820. The use of proxies in voting was manipulated to the advantage of ring or machine management, and fraudulent proxies were used. The correction of this abuse was aimed at in the law of 1819, chapter 134, which forbade the use of proxies to all except the infirm and those living more than ten miles

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[1] Niles, Sept. 9, 1820. [2] Ibid., Sept. 30, 1820.
[3] Md. Laws, 1817, ch. 156.

away. No officer, clerk or director could act as proxy, and in any case power of attorney was necessary. Judges of election permitting violation of these provisions were liable to $2000 fine and imprisonment for a year.

Directors were not entitled to receive any accommodations on special terms, and no one could be elected director of a bank whose partner was a director of the same bank.[1] This law was restricted to Baltimore banks, and the assent of the stockholders was necessary to give it force. This it received.

The frauds which were exposed in the management of the City, Union and Mechanics' Banks and the escape of the parties from punishment, led to severe laws on this subject. The law of 1819, chapter 145, fixed the penalty for embezzlement by a bank officer at one to seven years in the penitentiary; for fraudulent abuse of trust the punishment was one to ten years in the penitentiary. In 1821 the penalty in each of these cases was made five to fifteen years in the penitentiary.

8. *Crises of 1825 and 1828.*

After 1820 there came a reaction from the period of speculation which had preceded. The weak banks passed out of existence; the survivors enjoyed a long period of prosperity without violent disturbance. By 1830 they had recovered from the losses of 1816-21. The United States Bank exercised a controlling influence over them and rendered their operations more guarded and regular. The State banks followed more slowly the restrictions and expansions of the national bank. In Maryland there was not a time in the decade 1820-30 at which the banks had dangerously expanded. (See Appendix, page 137, for the circulation and deposits of Baltimore banks for this period.) It is impossible at present to obtain the figures for the country banks; however, they represent but a small part of the banking capital at this time, since all had gone out of existence except four.

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[1] Cf. Md. Laws, 1819, ch. 156.

The panic of 1825 was the result of a general spirit of speculation, which reached its greatest magnitude in Europe; in America its special feature was speculation in cotton. An increased tariff also heightened the expectation of prosperity. Demand for credit stimulated the creation of banks again, especially in New England, New York, Pennsylvania and the West. The currency became considerably inflated. Maryland was comparatively affected but little, since the speculation in cotton in this district was not great. Her banking institutions did not receive a single addition. The circulation of the Baltimore banks was increased but $240,000 during 1824, the year of inflation. Within the next six months there was added about $150,000, but nothing extreme occurred.

When the reaction began, about September, 1825, by the fall in the price of cotton and other products, general distress prevailed. Many failures occurred all over the Union, but Maryland suffered proportionally less than any other State. The circulation was uniform and adequate to its work.[1] The contraction by the State banks was not sufficiently rapid to produce disaster; in fact, the discounts of Baltimore banks was greater in January, 1826, than for a number of years preceding, reaching $3,047,410. By January, 1827, the amount had been diminished by $70,000 by curtailing issues. The entire circulation of Maryland banks was in good credit; none of it was at a discount. This was largely the effect of the frequent settlements required by the United States Bank. A considerable part of the circulation was coin; very few notes under $5 in denomination were current, and these were chiefly Virginia bank notes.[2]

The disturbance of 1828 was largely resultant from an extension of circulation by the Bank of the United States. By April, 1828, the money market had become very close, and much specie was being exported. The banks of Maryland had already been compelled to begin a reduction of dis-

[1] Niles, Dec. 3, 1825. [2] Niles, Nov. 19, 1825.

counts. At the same time they ceased to receive on deposit or for the payment of notes, the bills of all banks which were not received in Philadelphia and New York. The quantity of specie at the command of the country banks was so limited that already the redemption of their notes was in many cases a task. The Baltimore banks relieved the stringency as far as lay in their power. In January, 1828, the circulation and deposits amounted to $2,996,350; by January, 1829, they had increased to $3,055,980. The periods of greatest depression were May, 1828, and September, 1828, to July, 1829. By the end of 1829 business had revived and money seemed plentiful; a large part of it was silver.[1]

9. *Expansion of 1829-36.*

Several causes were operative in producing the expansion of banking in Maryland which occurred from 1829 to 1836. In the first place, the counties which had been gradually progressing during the decade 1820-30 had been practically without banking facilities since the wholesale fall of the country banks in 1819-21. This field was now a ripe one for entrance. Secondly, no new banks had been established in Baltimore since 1812; the monopoly of banking in that city had been conferred on the banks then existing in return for their agreement to build a road from Baltimore to Cumberland.[2] This monopoly expired in 1835. During this period of twenty-three years Baltimore manufactures had developed steadily, and in 1835 works were in construction or contemplation destined to make Baltimore the mart for a wide extent of territory. In 1825 the Chesapeake and Ohio Canal was chartered; the Chesapeake and Delaware Canal was entered upon in 1829. A charter was given to the Baltimore and Ohio Railroad in 1826, and to the Susquehanna in 1829; the Philadelphia, Wilmington and Baltimore line was opened for travel in 1837. Other lines were being discussed. The improvement in transportation was opening up new industrial possibilities, and Baltimore was zealous to

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[1] Niles, 1828 and 1829. See table next page.

[2] See p. 46.

Statement of the Condition of Maryland Banks, January, 1830.

RESOURCES.	BALTIMORE.	UNION.	MECHANICS.	MARINE.	FRANKLIN.	COM. & FARM.	FARM. & MER.	HAG'RSTOWN.
Discounts	$1,573,737	$1,958.818	$597.577	$297,100	$636 682	$598.386	$526.471	$438.499
Specie	262 409	188,996*	72,740	50,750	50.506	95,663	31.848	40,138
Due from banks	140,746	....	85 531*	26,712	167,926*	91,946	65.327*	59.953
Real estate	42 973	239.985	50.620	29,000	45.189	....	26,575	23.346
Road and other stocks.	90,140	459,245	61,808	18,460	95.584	98.466	87,475	20.735
Suspense account	.....	......	.....	....	....	58,952	.....	....
LIABILITIES.								
Capital	$1,199.350	$1,736.625	$384,000	$235.000	$415.000	$416,866	$465,000	$250.000
Circulation	226.316	22,771	212,478	68,269	217,144	244.937	110,232	216,275
Denosits	424,578	255.994	187,978	82,643	236.337	137.311	149,025	87.271
Due to banks	149,308	11,817	77,717	29,168	90,794	55.773	.....	15,989
Surplus	84,868	......	...	....	24,080	50.001	.....	2,841
Other liabilities	25.585	619,837	6,104	6,942	12,530	38,950	13,439	....

* Includes notes of specie-paying banks.

render effective her strong natural position. In 1830 the cry for more banking capital had already become a strong one.[1] The whole State was dependent for bank accommodations upon twelve banks, of which eight were in Baltimore. The total capital for the State was $5,455,000, exclusive of $1,500,000 to $2,000,000 employed by the branch of the United States Bank. The counties needed the introduction of facilities at the more advanced points, and the city needed an increased banking capital.

A third cause which was influential in the increase of banks at this time was the termination of the Second Bank of the United States. The end of this institution at the expiring of its charter in 1836 was anticipated as early as 1830. In 1832 President Jackson, by his veto, put at rest all hopes of recharter. As in 1810, so again in 1832, this was the signal for hosts of applications for new banking charters.

In Maryland the expansion took the forms both of an increase in the number of institutions and also of an augmentation of the capital of several of the old banks. The former movement was much the greater. No banks were chartered in Maryland from 1818 to 1829. Between 1829 and 1836 seventeen new ones were granted charters and two old ones which had failed in 1821 were revived. Five of the seventeen, however, did not organize and open for business. Nine of the new banks were chartered for Baltimore in 1835; ten were distributed over seven counties. None were created in Baltimore after 1835 for more than a decade, owing to the renewal of the monopoly to the banks then existing until 1845 upon their agreement to make the Boonsboro road.[2]

The total authorized capital of the new banks was $17,900,000, though the banks which did not enter upon operations reduced this by $10,750,000. The actual increase of capital was $4,878,900, or half as much as the preëxisting

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[1] Report of Select Committee on a Bank of the State of Maryland, 1830. Report of Committee of Ways and Means on a Bank of the State of Maryland, 1833. [2] See p. 47.

capital; $3,788,730 of this new capital belonged to the five new Baltimore banks.

A list of these banks, with their nominal capital, follows:

NAME.	LOCATION.	ESTAB'D.	CAPITAL.
Salisbury,	Salisbury,	1829	$ 50,000
Washington Co.,	Williamsport,	1831	250,000
Commercial,	Millington,	1831	100,000
Cumberland,*	Cumberland,	1832	200,000
Planters' Bank of Prince Geo.'s Co.,*	St. Mary's,	1832	200,000
Patapsco,	Ellicott's Mills,	1833	300–150,000
Merchants',	Baltimore,	1835	2,000,000
Western,	Baltimore,	1835	500,000
Commercial,†	Baltimore,	1835	3,000,000
Eastern,†	Baltimore,	1835	500–250,000
Chesapeake,	Baltimore,	1835	1,000–500,000
Mineral,	Cumberland,	1835	250,000
Citizens',	Baltimore,	1835	500,000
Farmers' and Planters',	Baltimore,	1835	2,000,000
Real Estate,†	Baltimore,	1835	5,000,000
Farmers' and Millers',	Hagerstown,	1835	300,000
Hamilton,	Anne Arundel,	1835	150,000
Real Estate,†	Frederick,	1835	2,000,000
Union,†	Cumberland,	1836	500,000
			Total, $17,900,000

* Revived. † Did not open for business.

The strict conditions imposed upon some of the new banks prevented their organization. The capital of the Commercial Bank was fixed at $3,000,000, to which the State might add $100,000 whenever it wished to subscribe to its stock. The bank was allowed to invest $300,000 in ocean steamships trading with Baltimore. Baltimore was to be the location of the main bank, and two offices of discount and de-

posit were to be opened on the Eastern Shore and three on the Western. $600,000 in specie was required to be on hand at the beginning of business, and besides the regular school tax, a bonus of $112,500 was required.[1]

The Eastern Bank of Baltimore had already been in operation as the Fell's Point Savings Institution. It was given full banking privileges on condition that when the change was effected it should have on hand in specie $125,000, half its nominal capital, and should become subject to the school tax, besides paying the State a bonus of $9775 and an additional bonus of $3.75 per $100 of capital over $250,000. Likewise for the Union Bank of Allegany the specie requirement was large, and besides the regular school tax, a bonus of $3.75 per $100 of nominal capital was required.

The two real estate banks, located in Baltimore and Frederick, respectively, were a manifestation in Maryland of the same movement which was gaining ground rapidly at this time in the West. The plans of the two banks were similar. The capital of the Real Estate Bank of Baltimore was $5,000,000, consisting of real estate in Baltimore, conveyed to the bank, to the amount of $4,000,000, and $1,000,000 in money. Only fee simple and unencumbered estates of lessees for ninety-nine years, renewable forever, were received. The bank was to borrow $4,000,000 by a sale of bonds bearing interest at 6 per cent. or less. Each one conveying land to the corporation held stock to the amount of its value, but was responsible for depreciation of the land. The Governor of the State had power to appoint five persons to inspect it after the lapse of three years. A bonus of $3.75 on each $100 of its capital up to $4,000,000 was required by the State. $400,000 in specie had to be in its possession before it could begin business. The charter of the Real Estate Bank of Frederick County was similar to the one just described. Its capital was $2,000,000, of which $1,800,000 was to be in Frederick County real estate and $200,000 in money. Bonds

[1] Md. Laws, 1835, ch. 289.

for $1,500,000 were to be issued. The strict requirements, together with their experimental character, prevented their organization.[1]

The restraint exercised by the Legislature was sufficient to allow banks to be organized only where there was an economic demand for them. A number of applications for charters was refused, and the strictness of those granted prevented their acceptance by speculators. Several of the companies granted charters were compelled to ask for an extension of the time allowed them for organization, which indicated the difficulty of complying with the conditions.

The new charters were more rigorous in the following respects: The quantity of specie required to be on hand on opening for business varied in different cases from the entire authorized capital to one-fourth of it, and before the bank could open for operations the Treasurer of the Western Shore must have made examination and seen that this amount of specie was in the hands of the bank. It was prohibited, too, to pay instalments of stock with discounts obtained by pledge of such stock. Forfeiture of charter on failure to pay their liabilities in specie on demand was a provision of these charters, and interest at 12 per cent. per annum was demandable from the time when payment was demanded and refused. In the report of the Select Committee on the Currency to the Legislature in 1837, greater responsibility on the part of the directors was urged. It was suggested that this be fixed at an amount equal to one-half their stock. This, however, failed to receive sufficient support to make it a law.

The expansion of the capital of banks already in operation amounted to $2,500,000. The Franklin Bank added $1,200,000;[2] the Salisbury, $100,000;[3] the Hagerstown $400,000;[4] and the Hamilton, upon its removal to Baltimore, in 1837, added to its capital $800,000.[5] The State, too, by

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[1] Md. Laws, 1835, ch. 378. [2] Ibid., 1835, ch. 277.
[3] Ibid., 1836, ch. 159. [4] Ibid., 1836, ch. 295.
[5] Ibid., 1836, ch. 198.

selling its right to subscribe in several of the banks effected really an increase of active capital. The right to subscribe to the capital had been reserved by the State in every case in granting the charter, and inasmuch as but a small portion of this amount had ever been subscribed and paid for, it really operated as a limitation of capital. Between 1833 and 1836 the State sold the right to subscribe some or all of her reserved shares in three banks at rates varying from $2 to $10 per share. Stock to the amount of $625,000 was thus freed for subscription, $75,000 in the Union Bank, $500,000 in the Merchants' and $50,000 in the Hamilton.

Some mention of the great extension of private banks should be made here. It is impossible to obtain definite information concerning them. The chief function performed by these private banks was that of issue, and after about 1825 this function was exercised by companies of all sorts which could find a market for such wares. With a view to restraining them they were made subject to the same provisions as banks as regards the denominations of their notes.[1] A more effective check was administered in 1842, when they were prohibited altogether from issuing.[2]

Reviewing, then, the increase of banking capital from 1829 to 1836, we find that at its beginning there were thirteen banks, with an active capital of $7,461,372. These were increased by fourteen banks, whose paid-up stock was $4,878,000. The total increase of active capital from the three sources mentioned above was over $8,000,000, i. e., the capital was doubled. The Bank of Maryland by its failure in 1834 detracted $300,000.[3] In 1836 there were, then, twenty-six banks, whose nominal capital was $19,176,000, of which $15,465,000 was paid in.

10. *An Attempt to Establish a Bank of the State of Maryland.*

Throughout the years 1830-33 there was an active discussion of a plan to establish a bank under the direct control of

[1] Md. Laws, 1831, ch. 317. [2] See p. 100.
[3] See p. 89, et seq.

the State government. The need of a decided increase of banking capital and of the location of banks in the country sections were facts admitted by all. Those engaged in manufacturing and commercial operations especially complained of the inadequacy of the banking capital and the limited amount of the currency.[1] The cause of the small amount of circulation was considered to be the influence of the United States Bank in restraining the State banks.[2] The espousers of the new State bank were bitterly opposed to the United States Bank.

The objects of the new institution were to be an increase of the circulating medium, the convenience and benefit of the people at large, the repletion of the treasury of the State, the keeping of the public deposits, the making of improvements, the support of public education and the avoidance of taxation. The bank was to belong to the State exclusively, and the contemplated organization of it would have made it a department of the State government. The president and board of five directors were to be appointed by the General Assembly, on the recommendation of the Governor, with the consent of the Council. The president and directors had power to appoint the officers and other agents. Office was to be tenable during good behavior, subject to removal by the Governor upon the recommendation of the General Assembly. Political opinion was to have no influence in the appointment or dismissal of any officer.

It was proposed to form the capital of the bank from the invested money in the State treasury, which was composed of United States, bank, road and other stocks. The bank stock amounted to about $520,000, and there was $335,105 invested in United States 3 per cents. Other funds amounted to about $80,500, making in all about $935,600. The augmentation of this capital was provided for as fol-

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[1] Report of Mr. Teackle, Chairman of Select Committee on a State's Bank, House of Del., Dec. session, 1829. Report of Committee of Ways and Means on a State Bank, 1833. [2] Ibid.

lows: The bank officers, with the approval of the Governor, Council and Legislature, were to be authorized to purchase, at a rate not exceeding the par value of the actual capital paid in, any one or more of the banks then existing in the State. To pay for it, the bank was to issue 20-year 5 per cent. bonds, for payment of both principal and interest of which, the faith of the State was to be pledged. Two per cent. semi-annually of the amount of the bonds was to be set aside and invested by the bank for the redemption of the bonds. After the payment of the debt the banks which had been purchased were to be merged into, and their funds were to form a part of the capital of the State's bank.

This scheme introduced the idea of consolidation and centralization by the absorption of some or all of the old banks. This principle was further extended by provision for a system of offices and agents embracing all the counties and important centers. These offices were to be for discount and deposit; their capital was to be apportioned them from the central bank.

The advancement of the counties was one of the objects especially aimed at, and in furtherance of this, money was to be advanced on real estate security at a rate of interest not exceeding 5 per cent. per annum.

The profits of the bank were to be at the disposal of the State Treasurer, though if the semi-annual dividends exceeded 5 per cent., the excess was to be turned over to increase the capital of the bank. The State Treasurer was to be allowed to anticipate an accruing dividend by drawing on the bank for its probable amount.

The Attorney-General and the Treasurers of the State were made ex-officio directors of the bank. For discounts upon personal security two good names were to be required, otherwise a deposit of bonds or precious metals was made necessary; accommodation notes were not to be discounted without a similar deposit. No president, director, officer or agent of the bank was to be allowed to be a borrower, or endorser, or receive discounts.

There were two peculiar features in the proposed bill; the first was the power of issuing "bettering notes," or notes bearing interest at the rate of one cent a day, redeemable both in principal and interest at three months after presentation; the denomination of the note was to be $100. The second experiment was the sale of certificates of stock of a face value of $100 each, bearing interest at 3 per cent. per annum, to persons having notes of the bank to an amount of $1000. Eighty dollars of the bank's notes were to be exchangeable for a certificate of stock. This stock was to be redeemable at pleasure by the State.

Provision was made for periodic inspection and reports to the Assembly; $500,000 in coin had to be in hand before opening.

The leading points of this proposed legislation were strong. As an instrument to centralize and make uniform the State banking system, it would have been an immense step in advance. A great economy in banking would have been effected, while by the branch office and agency system, less advanced districts would have received the assistance necessary for their development. The experience of the country banks from 1814 to 1820 pointed in this direction. The danger of such an institution from the political side would be great.

In 1829 the Legislature appointed a committee to consider the petitions for the bank; it made a careful investigation and reported favorably. The bill received a lengthy discussion, but finally was rejected by a vote of 46 to 23. Similar committees had the same matter referred to them in the various sessions of 1830-33; invariably the report was favorable, but a bill could never be carried through the Assembly.[1]

In the formation of the bill just described, much study was devoted by the committee to the foundation and operation of other State's banks already organized, especially that of

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[1] Niles, Feb. 13, 1830.

South Carolina. The State's banks of Georgia, Alabama, Tennessee, Louisiana, Indiana, Ohio, Florida, Kentucky and New York were also carefully examined, and correspondence was entered into with officers of these banks.[1]

In 1837 the question of a State bank was revived. The House of Delegates ordered that the Committee on the Currency "inquire into the expediency and practicability of changing the banking system of the State in such a way as might lead to the establishment of a State bank * * * by a union of all such solvent banks of the State as may be willing to convert themselves into branches of the State's bank by transferring to it all their stock and assets." All the banks without exception expressed disapproval of the scheme and their unwillingness to enter into it, consequently it was immediately dropped.[2]

11. *The Merchants' Bank Charter.*

(*a*). Uniform Regulation of Banks.

Up to 1834 the major part of the legislation affecting banks was the charter regulations of the separate banks; very few general laws applicable to all had been passed. The various charters differed considerably in their provisions, as has been shown. A considerable step toward uniformity was taken in 1835, when all Baltimore banks were made to conform to the charter of the Merchants' Bank of Baltimore. This charter was given early in 1835, and new banks which were established in Baltimore after this date were simply brought under its provisions. The old banks came upon the same basis when in 1835 and following years acts were passed continuing their charters. In the case of the banks which had been continued to 1845 by the Act of 1821, chapter 131, in return for their agreement to construct the Boonsboro road, the new regulations could not be introduced until after the termination of the old charter. The

[1] Report of Select Committee on a State's Bank, 1829. Ibid., 1830, pp. 8 ff. and 48; also p. 33. Report of Committee of Ways and Means upon a State's Bank, 1833.

[2] Report of the Committee on Currency, 1838, p. 5.

Marine and the Farmers' and Merchants' Banks were extended to 1856;[1] the Mechanics' and the Franklin to 1857;[2] the Commercial and Farmers' and the Baltimore to 1858; the Union to 1859. In return they were to become subject to the regulations contained in the charter of the Merchants' Bank, to relinquish the exclusive right of banking in Baltimore and to suffer additional taxation.

The more important changes which were introduced in the charter of the Merchants' Bank were the following: The president and directors had to be citizens of Maryland, not of the United States merely, as previously. Issues might not exceed the amount of the capital paid in; the total amount of debts exclusive of issues was limited to the same amount. Formerly the total debts might equal twice the capital. The president and directors in their corporate capacity could not hold any part of the capital of their bank, nor make any loans on a pledge of stock, nor receive the same as collateral security for any money loaned, except for doubtful debts previously contracted. Debts due to a bank by a stockholder had to be settled before he could transfer his stock, unless the president and directors allowed otherwise. Real estate falling into a bank's hands had to be disposed of within five years. The banks were empowered to invest in Maryland, Baltimore and United States bonds. Fifty stockholders controlling 1000 shares could call a general meeting of the stockholders.

The Legislature reserved the power to regulate the denominations of bank notes. It required the banks to act as commissioners of loans when desired. In case of suspension of specie payments, interest at 12 per cent. per annum might be demanded, if the assets of the bank were sufficient to pay it; otherwise as much above 6 per cent. was recoverable as the assets would pay.[3] The law provided for the pro

[1] Md. Laws, 1834, ch. 274. [2] Cf. ibid., 1844, ch. 294.

[3] To place all the banks upon the same footing, the rate was made 6 per cent. until 1845, by the law of 1841, ch. 41. The country banks were subject to the general law of 1818, ch. 177, which required interest at 6 per cent.

rata distribution of all assets in case of suspension of specie payments.

The country banks were likewise placed upon a common footing by the Acts of 1836, chapter 239, and 1842, chapter 251,[1] which extended their charters to dates varying from 1855 to 1860. All were required to send to the treasurer an annual report of their condition. Through this act inspection by the State became a protection of the general interests, and was not done by the State as stockholder, inasmuch as the State had only subscribed in two or three of these banks. The payment of the school tax was continued and a new tax, a bonus of $1.25 per $100 of capital paid in, was imposed. Notes under $5 were prohibited, and the State reserved the right to regulate the denominations of issues after 1845. The charters were to become void on failure to pay specie.

(*b*). Increased Taxation.

An additional tax was imposed in each case as the condition of a continuation of the charter after 1845. The banks of Baltimore were required to pay in three annual instalments a bonus of $75,000, proportioned to the amount of capital of each bank. The country banks whose charters were renewed had to pay, as stated above, $1.25 for every $100 of capital paid in, as a bonus to the State.

The new banks which were established during the expansion of 1829-36 were taxed, in addition to the tax for the school fund, $3.75 per $100 of capital paid in, and at the same rate for additions to capital. In one or two cases the rate varied slightly. These taxes were payable in annual instalments within three years.

An attempt was made in 1835 by the municipal authorities of Baltimore to lay a tax upon the stock of banks.[2] The Legislature decided this to be in violation of its pledge

[1] Cf. Md. Laws, 1843, ch. 95.

[2] Md. Laws, 1834, ch. 274. Ibid., 1836, ch. 239. Ibid., 1842, ch. 251. Ibid., 1843, ch. 95.

given in the Act of 1821, chapter 131, to impose no additional tax until 1845. To prevent discrimination between the banks, the city was also forbidden to tax banks incorporated since that act.[1]

In 1841[2] the State's indebtedness required extra taxation to meet its expenses. All bank stock was taxed at the rate of twenty cents on the $100, in addition to taxes on real and other personal property. The banks objected strenuously to this burden, and claimed it was a violation of the State's pledge to impose no further tax until 1845.[3] The loan had been obtained from the banks, now they were taxed to pay it. Considerable trouble was met in the collection of this tax. To facilitate its collection banks which had loaned the State in 1841 were allowed, upon notice to the treasurer, to issue orders upon the State treasury up to the amount of each one's loan. These were receivable in payment of the direct tax upon bank stock. They were not to be reissued by the treasurer.[4] Still collection of the tax continued to be impeded, so in 1843 the bank officers were required to retain from the profits and pay the treasurer the amount of the tax.[5] However, in January, 1845, the Supreme Court of the United States decided that the banks which had been incorporated prior to the Act of 1821, chapter 131, were exempt from the tax during the continuance of their charters. This freed six Baltimore banks from payment of the tax until March 10, 1846, and the money which had been paid in by them was refunded.

12. *Crisis of 1834 and its Effects.*

A tax of one-half of one per cent. was imposed on all bank stock sold at auction by the Act of 1843, chapter 293.

The crisis which occurred in 1834 was felt comparatively little in the East, and was of short duration. It was precipitated to great extent by the hostile relations existing between the administration and the United States Bank. In 1833,

[1] Md. Laws, 1835, ch. 142. [2] Ibid., 1841, ch. 23.
[3] Ibid., 1821, ch. 131. [4] Ibid., 1841, ch. 291.
[5] Ibid., 1843, ch. 289.

when the national deposits were removed, the bank was compelled to contract its discounts suddenly. This occurred before the new State banks which had been chartered were fully organized, hence they were unready to relieve the situation. The branches of the United States Bank, too, were very stringent in their relations with the State banks, and prevented an active response to the demand for discounts. A rapid retrenchment occurred; on January 1, 1834, the discounts of the Maryland banks were $10,273,000, and the circulation was $2,071,000. Within six months the discounts had been reduced by $1,100,000 and the circulation by $800,000; the specie on hand was maintained at $630,000, or one-half the circulation. After June, 1834, the influence of the newly-chartered banks began to be felt and the discount and circulation lines began to rise. The rate of discount dropped rapidly from 30–36 per cent. per annum to 10–12 per cent. and lower, and the tightness of the money market was soon relieved.

To this crisis was charged the failure of three banks in Maryland. Maladministration was the cause of bankruptcy in each case; the removal of the national deposits from the United States Bank and the resulting restriction were the occasion of it. The greatest of these failures and the most wide-reaching in its effects was that of the Bank of Maryland. It was the first bank chartered in the State, and it received an exceptionally liberal charter.[1] The State was not a stockholder in it, nor did it render any reports to the treasurer. Its early administration was vigorous and successful.[2] During the years 1816-24, in common with the other banks, it suffered severe losses, due partly to the character of its officers, who were now conducting it sluggishly in contrast to its former active policy. An investigation of its affairs was made in 1824, which revealed the fact that $100,000 had been lost. The following statement was rendered to the stockholders February 10, 1824:[3]

[1] See p. 29. [3] Ibid.

[2] Observations on an Act to Establish a Bank, etc. T. Ellicott, Bank of Maryland Conspiracy, etc.

ASSETS.

Discounts—accommodation notes	$206,340.00	
" business notes	49,765.00	$256,105.00
Protested notes (bad)		74,912.00
Overdrafts (doubtful)	$2,926.00	
" (bad)	197.00	
" (good)	267.00	3,390.00
Due from other banks		16,375.00
Specie		18,969.00
Real estate		24,765.00
Road stock		22,324.00
Other assets		6,314.00
		$423,154.00
Deduct—Protested notes (bad)	$74,912.00	
Estimated loss on doubtful notes	12,870.00	
On banking house	13,189.00	
On road stock	16,695.00	
Expenses	2,528.00	120,194.00
	Real value of assets,	$302,960.00

LIABILITIES.

Capital		$300,000.00
Circulation		43,736.00
Discounts received		6,963.00
Due to other banks		2,185.00
Deposits		56,438.00
Contingent profit	$13,231.00	
Unpaid dividends	574.00	
Other liabilities	27	13,832.00
	Total debts,	$423,154.00
Deduct—Contingent profits	$13,231.00	
Accruing discounts	6,963.00	
Real value of assets	302,960.00	323,154.00
	Loss,	$100,000.00

It is thus seen that one-third of the capital was lost in 1824. The bank, however, continued to pay dividends, and, it was believed, restored no portion of this loss.[1] This is presumed to have been substantially its condition in 1831, when a change in the personnel of its administration occurred. A radical turn in its policy was immediately observable. Its business was extended much further than its limited capital permitted. The practice of paying interest on deposits which were by contract to remain a specified time, was begun. In 1832 a deposit of $335,000 was obtained from the State. Its circulation increased enormously and somewhat of an apprehension of a disaster arose in banking circles. At the Union Bank its notes were received in such quantities that remonstrance was made to the directors of the Bank of Maryland. However, daily exchanges were still effected. The expansion of business within two years was as follows:

	Aug. 30, 1831.	Sept. 24, 1833.
Specie	$8,525	$45,000
Circulation	213,070	620,000
Deposits	88,998	1,720,000
Discounts	500,000	1,873,000

In October, 1833, President Ellicott, of the Union Bank, refused their notes above a limited amount. The Bank of Maryland tried to procure aid from the Secretary of the United States Treasury, but without avail. In January or February, 1834, the Union Bank loaned it $100,000 to tide it over the crisis. However, on March 22, 1834, it was compelled to suspend. An investigation revealed the following facts:[2] About May, 1832, a partnership had been formed by the president and two directors of the bank and two other parties to deal in the stock of the bank. Between May 22, 1832, and January 22, 1833, 900 shares out of a

[1] T. Ellicott, Bank of Maryland Conspiracy, etc.
[2] Ibid.

total of 1000 were purchased at $500 per share (par value $300) out of the funds of the bank. On March 10 the president and directors transferred these 900 shares of stock to the partnership, and, to pay for them, discounted their notes for $450,000, payable on presentation in money or stock of the bank. They were thus placed in control of the bank. With the bank's funds they also subscribed for the major part of the stock of the General Insurance Company, and created the partners, president and managers of it. A purchase of 6000 shares of Union Bank stock was made by one of the partners, for which he gave his note for $510,000 and deposited as security bonds belonging to the Bank of Maryland to the amount of $500,000. The partners were through these transactions indebted to the bank $950,000.

When the crisis of 1834 came on, they, by powers of attorney, conveyed their stock to the president and withdrew their notes from the bank; in their place was substituted his individual checks. Bank of Maryland stock also was deposited with the General Insurance Company, as security for some policies, by the president of the bank in March, 1834. The proceeds of these policies were deposited in the Bank of Maryland to the credit of the president. He checked upon this credit to parties who used it to counterbalance obligations to the bank. On March 21, the General Insurance Company returned the stock held by them to the bank and cancelled their policies. The chief losses thrown upon the bank by the partnership were:

Loss on 900 shares of Bank of Maryland Stock . .	$270,000
Loss on Union Bank Stock	40,000
Loss on General Insurance Co. Stock	30,000
Total . . .	$340,000

Immediately after the failure of the bank its affairs were placed in the hands of a trustee, with whom afterwards two others were associated. Bitter enmity existed between all concerned in the fraud and the trustees, and polemic after

polemic was published. No report was rendered to the creditors for seventeen months. Finally they became so exasperated that they mobbed the houses of all the parties concerned in the partnership, and there was considerable destruction of property. The mob held sway from five days. Upon petition to the Legislature an indemnity of $102,550 was granted to those who suffered by it.[1]

The trustees were in disagreement among themselves. Two of them allowed the acceptance of $400,000 from the president of the bank to cover his obligations, after the trust had been conferred. The president pledged his private estate to meet the debts of the bank, and suits against various parties were instituted for sums aggregating over $600,000, a large part of which, it was charged, was recovered through unjust influence over the court. By these means sufficient funds were collected to cover all claims against the bank, although it was at first thought the creditors would lose almost everything. The following tables show the condition of the bank at the time of its failure, and in an imperfect way, how far liquidation had proceeded in 1838, when a dividend of ten cents on the dollar was made to the creditors.

STATEMENT OF THE CONDITION OF THE BANK OF MARYLAND, MARCH 22, 1834.[2]

LIABILITIES.

Capital	$300,000	
Circulation	624,3 ,5	
Deposits bearing Interest	1,069,752	
Other Deposits	371,256	
Profit and Loss	18,551	
Other Liabilities	735,660	
		$3,109,614

[1] Scharf, History of Maryland, Vol. II, p. 182.

[2] Report of the Case of Bank of Maryland vs. Sam'l Poultney and Wm. M. Ellicott, Harford Co. Court, 1836, p. 49.

ASSETS.

Bank of Maryland Stock	$ 400,000	
Discounts	1,371,394	
Specie	32,977	
Real Estate	34,518	
Stocks, etc.	1,243,046	
	$3,081,935	
Deficit	27,679	
		$3,109,614

CONDITION OF THE BANK MAY 20, 1838.[1]

Current Funds	$131,626	
Bills and Notes*	566,644	
Due on Open Accounts	133,643	
		$831,421
Claims of every kind, including 200 shares of stock,		614,474
		$216,947

*This includes $400,000 passed to the credit of the bank after its failure.

The above statements do not indicate the character of the assets. The trustees, in their testimony in the case of the Bank of Maryland vs. Sam'l Poultney, gave as their opinion that the losses on the assets would be small. The creditors ultimately lost little. The greatest loss fell upon those who, in the height of the panic, disposed of their claims at 40 to 50 per cent. discount.[2]

The failure of the Bank of Maryland immediately caused runs upon the other banks, but they withstood them without serious difficulty.

The Commercial Bank of Millington failed in 1836. Its nominal capital was $100,000, and it had been chartered only in 1832. Its president was a speculator, who immediately before the failure of the Millington Bank organized another

[1] Report of the Case of Bank of Maryland vs Sam'l Poultney and Wm. M. Ellicott, p. 49. [2] Niles, 1834, Vol. XLV, p. 65.

in Hagerstown on deposits in the old bank as capital. The amount of its assets and debts is unknown.[1]

The Susquehanna Bank, which had failed in 1820, was revived. It sustained the run upon it made at the failure of the Bank of Maryland[2] with difficulty, and soon after succumbed. It must have satisfied its creditors in some way, inasmuch as it resumed business again in 1836. The loss in each of these cases was probably small, since the character of these banks was generally known and their business was very limited.

The Salisbury Bank, which had commenced operations in November, 1830, was compelled to suspend for a time in April, 1834; however, it soon resumed.[3] In the liquidation of debts to banks their notes were receivable, consequently immediately after a failure the debtors of the bank were anxious to purchase at a discount the notes of the insolvent bank to pay their obligation. On this account the Legislature enacted in 1835 that whenever a bank failed to pay on demand in specie, and was in condition to be proceeded against under the Act of 1818, chapter 177,[4] the notes of the bank were not receivable for debt to the bank unless they had been held by the debtor at the time of failure.[5] The same law provided that to settle the affairs of a bank, if stockholders holding the major portion of the stock so desired, the chancellor or county court might appoint a trustee, instead of the bank officials. This law was a direct outcome of the Bank of Maryland trouble.[6]

13. *Crisis and Suspension of 1837.*

The period of 1822-37 was one of almost unbroken prosperity in the eastern part of the United States; the difficulties of 1825, 1828 and 1834 were of short duration, and their effects in the Eastern States were not so great. Several circumstances combined to produce the panic of 1837. In the

[1] Niles, June 7, 1834.
[2] Ibid., Feb. 15, 1834.
[3] Ibid., Apr. 26, 1834.
[4] See p. 57.
[5] Md. Laws, 1834, ch. 305.
[6] See p. 93.

first place, the long-continued prosperity led naturally to a dangerous expansion in industrial enterprises of all sorts. The spirit of speculation had been growing for a decade. In Maryland the special form of speculation was in the various improvement schemes. Canals, railroads, turnpike roads, etc., were proposed and entered upon with zeal. The Baltimore and Ohio, the Baltimore and Washington, the Susquehanna, the Philadelphia, Wilmington and Baltimore Railroads, the Chesapeake and Ohio and the Chesapeake and Delaware Canals, and roads too numerous to mention, were all under way at this time in Maryland. They were to a great extent local projects, and drew their resources from within her bounds. The public lands were an object of investment generally.

Secondly, the price of cotton had been low for several years, and in 1836 the wheat crop was a failure. The balance of trade had continued against the United States for some years, and specie had been sent abroad to adjust her balances.

A third cause of the crisis was the general apprehension of financial trouble at the closing of the United States Bank and its restriction to enable it to adjust itself to the new conditions.

The Baltimore, Philadelphia and New York banks suspended specie payments on May 12, 1837, shortly after the specie circular had been put into operation, which threw back upon the banks their notes for redemption. At the same time shipment of specie abroad continued, and the government made heavy demands upon the deposit banks. Specie in Maryland commanded a premium of 6 per cent. To retain it the banks were compelled to suspend.

In Maryland this was altogether a protective measure; the banks were in a sound condition. At the time of suspension they had one dollar in specie in their vaults for every three of notes in circulation, which at that time was regarded as the criterion of soundness. The ratio of specie to circulation and deposits was as one to eight. The country banks

were uniformly in as good condition as the city banks. All but four of them had been recently organized, and their operations were not yet far extended.

At the first meeting of the General Assembly after the beginning of the suspension a Committee on the Currency was appointed to examine into the solvency of the banks and their ability to redeem their notes ultimately, and to report whether or not they had forfeited their charters by suspending. The committee conducted its examination by means of sworn statements from bank officers in reply to certain general and special questions. These replies were afterwards verified by the committee by a personal investigation of the books of the banks.[1] The committee pronounced the banks without exception to be in a sound and highly creditable condition.

There could, however, be no doubt that the banks had rendered their charters liable to forfeiture. The general law of 1818, chapter 177, declared all charters voidable on suspension. This had been reaffirmed for Baltimore banks, when, by the recharter law of 1834, chapter 274, they became subject to the eleventh and thirteenth sections of the charter of the Merchants' Bank, and for the country banks by the law of 1836, chapter 239.[2] In addition to this the charters of the Frederick County, Western, Farmers' and Planters', Chesapeake, Citizens', Hamilton and Mineral Banks specifically reserved the right to revoke the charters on failure to pay in specie.

The banks expressed their readiness to resume at any time the Legislature might appoint, but they feared the consequences if they were compelled to resume before the banks north of them, to which they were heavily indebted. Maryland banks were owed balances by the banks of the Southern States, which were still in suspension. Their specie would have been drained off to pay their Northern balances, and at the same time they would have had no means of replenishing

[1] Report of the Select Committee on the Currency, 1838, p. 1.

[2] See p. 87.

themselves except by purchase at a heavy premium. On January 1, 1838, the Baltimore banks were in debt to those of New York and Philadelphia $730,000. The country banks owed no balances North.[1]

The committee framed its recommendations into a bill, which was passed by the General Assembly in March, 1838.[2] It provided that every bank and savings institution should transmit to the State Treasurer, once a month during the suspension, a statement under oath of its condition, and likewise to every other bank and savings institution in the State a similar statement at least once a month during the suspension. The circulation during the suspension was limited to three times the amount of the specie in the bank's possession, and after resumption they were not allowed to issue more than the amount of their actual capital. No notes nor certificates of deposit of a less denomination than $5 were to be issued after May, 1838. The date for resumption was fixed at January 1, 1839, or within thirty days after resumption by the banks of New York, Philadelphia and Virginia, should they resume previously to that date. Banks complying with these conditions were freed from the penalties incurred by the suspension of specie payments and the issue of small notes. Against banks not complying the Attorney-General was to have issued a *scire facias*, to show cause why their charters should not be revoked.

These provisions were made with a view to preparing the banks for resumption. The New York banks were compelled by a State law to resume specie payments by May 10, 1838. The Philadelphia banks followed in August, and those of Baltimore immediately afterward. The resumption caused little inconvenience in Maryland. Discounts were not diminished at all.

For a statement of the condition of Maryland banks in January, 1838, see Appendix, page 185.

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[1] State Banks, p. 708.

[2] Md. Laws, 1837, ch. 315.

14. *Crisis of 1839.*

The prosperity which had been hoped for did not return with resumption. A year of disaster for the entire country followed, though the South and West especially felt its force. Maryland had become involved in a large and increasing debt through her improvement works, whose cost far exceeded estimation, and from which no returns were being received. In many cases work came to a standstill through lack of funds, and thus a vast amount of public and private capital lay locked up. Banks among others were heavy investors in this sort of stock.

The Bank of the United States, owing to its speculations, had become in a perilous condition, and was laboring to produce another suspension in order to shield itself. On the 10th of October, 1839, it suspended, and all the banks of the Union except those of New England and New York followed. The failure of the Bank of the United States fell very heavily upon Baltimore, where originally over $4,000,000 of its capital was subscribed; the whole capital was lost.

Under these circumstances the banks contracted rapidly. Interest rose to 20 per cent. Just before the suspension the discounts of Maryland banks had stood at $16,400,000, and the issues at $3,400,000. By the first of January, 1840, the discounts had fallen $2,500,000 and the issues $500,000.

The financial condition of the State, too, was most wretched. In the cause of internal improvement, Maryland had subscribed almost $12,000,000, and had become involved in a debt of $5,500,000, the interest upon which she was unable at that time to keep up.[1] The public revenue paid the current expenses only. No system of direct taxation was in use in the State, and for several years the inconveniences attendant upon the inauguration of one were felt. The laws taxing real and personal property were not enforced in some counties. The negotiation of a loan abroad failed in 1837.[2]

[1] Scharf, History of Maryland, Vol. III, p. 211.
[2] Ibid., p. 208.

In January, 1842, the State was driven to suspend payment of interest on its debt. Between 1837 and 1842 the State borrowed over $500,000, principally from the banks. The suspension of interest payment thus directly affected them. At the same time lack of resources necessitated a cessation of work on canals and roads, and the State was again appealed to for help.

To assist the improvement companies, which were in distress, specific powers of issue were granted in a number of cases. The Baltimore and Ohio,[1] the Annapolis and Elkridge[2] Railroad Companies, the Chesapeake and Ohio[3] and the Tidewater[4] Canal Companies were empowered to issue up to $4,000,000 paper variously denominated stock orders, certificates of debt or toll notes, secured by bonds of the State or of Baltimore or by mortgage of property. Other companies by their charters were allowed to make such issues; many made them without legal sanction. The orders issued by the Corporation of Baltimore and the Baltimore and Ohio Railroad had general circulation, and were the most reliable fractional currency after the disappearance of specie.[5]

The authorization of issues of individuals upon bond was discussed in 1838. The bond proposed was to be of five times the amount issued, and was to be filed with and approved by the clerk of the county court where issued. The matter was referred to the Committee on Currency, which reported unfavorably.[6]

An attempt was made in 1842 to put an end to all issues made without legal sanction. Improvement and other incorporated companies, except such as were allowed to do so by their charters, were prohibited from issuing any sort of

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[1] Md. Laws. 1840, ch. 25. [2] Ibid., 1841, ch. 168.

[3] Ibid., 1841, ch. 30. [4] Ibid., 1841, ch. 47.

[5] Scharf, Hist. of Maryland, Vol. III, pp. 207 and 182. Chronicles of Baltimore, pp. 491 and 495.

[6] Orders for the Com. on the Currency, House of Delegates, 1837. Report of Com. on the Currency, 1838, p. 5.

paper to circulate as money. The penalty was both corporate and individual liability to pay the full amount issued.[1] At the end of 1842 still more comprehensive legislation was passed, prohibiting every one except banks from issuing anything to circulate as money, under penalty of $20 for each offence. Traders forfeited their licenses for passing such notes. Besides the banks, the Baltimore and Ohio, the Annapolis and Elkridge Railroad Companies, and the Chesapeake and Ohio Canal Company were excepted from the operation of this law.[2]

The position of Maryland banks with reference to resumption was similar to that of 1838; they were between two fires, neither Pennsylvania nor Virginia banks were paying in specie, hence they hesitated to take the risk of having their specie drawn off. A special committee of the Legislature consulted the officers of the different banks in regard to resuming January 1, 1842. With two exceptions they declared their ability to resume at any time, but they unanimously preferred to wait until after resumption in Pennsylvania and Virginia. The Legislature set May 1, 1842,[3] and in case of non-compliance the bank forfeited its charter. On March 18, 1842, the Pennsylvania banks resumed, and those of Maryland followed without hesitation.

15. *Practice, 1837-44.*

The banks were uniformly administered with care during the suspensions of 1837 and 1839. There was a gradual expansion of discounts from 1836 to 1839 to meet the needs of patrons whom the stringency was pressing. This expansion was not, however, carried to a degree which imperilled the solvency of the banks. The increase of issues was comparatively small during the suspension of 1837. The calling in of paper and the reduction of discounts in 1839 was sharp, and caused considerable inconvenience. Between October, 1839, and January, 1840, discounts were diminished $2,500,000, or more than one-seventh. Interest rose to 20 per cent.

[1] Md. Laws, 1841, ch. 219. [2] Ibid., 1841, ch. 321.
[3] Ibid., 1841, ch. 302.

on good paper. Soundness was not sacrificed to profit. The specie reserve was maintained above one-third of the amount of the circulation, even at the expense of purchasing specie at a considerable premium. By January 1, 1838, $425,000 in specie had been purchased since the beginning of the suspension.[1] Some of them had disposed of gold and silver, almost entirely in the form of foreign coins, at a premium.

The dividends made at this time do not indicate excessive profits. The dividends of the twenty-two banks in operation ranged between 4 and 8 per cent. per annum during the years 1837 and 1838. Only one dividend as low as 4 per cent., and only two as high as 8 per cent. The rates of nearly all were between 6 and 7½ per cent. Nor was the surplus of any bank materially increased during the suspension. In some cases the usual rate was declared, and, profits falling short of this amount, the deficiency was made up from the surplus.[2] The market price of the stock of the various banks at this time points to the same conclusion. They were nearly all about par; only one or two commanded any considerable premium.[3]

A statement of the discounts, deposits, circulation and specie of Maryland banks, 1834-40:

JAN.	DISCOUNTS.*	DEPOSITS.	CIRCULATION.	SPECIE.
1834	$10,273	$3,567	$2,072	$ 664
1835	9,374	3,346	1,811	856
1836	13,519	4,967	3,052	1,180
1837	14,718	4,390	3,221	1,015
1838	15,821	4,329	3,084	1,342
1839	16,365	4,652	3,797	1,443
1840	13,934	3,379	2,937	1,222

*Three figures omitted throughout.

During the suspension all specie disappeared from circulation, and all the banks were driven to violate the law in re-

[1] State Banks, p. 705. [3] Ibid.

[2] Report of Select Committee on the Currency, 1838.

ceiving and passing notes of less denomination than $5. Three banks confessed that they had issued such notes, though two of them claimed that this power was given them by their charters, and had not been revoked.[1] The Patapsco and Frederick County Banks made this claim; the Bank of Westminster also issued them. Post notes were issued by two banks in the crisis of 1837 and 1839. The Western Bank had out, in 1839, $150,700 in post notes. The law which provided for resumption of specie payments allowed the issue of small notes up to one-fifth the amount of the capital paid in.[2]

The Committee on the Currency investigated the charge that directors received discounts on more favorable terms than others. The banks all denied that they discounted to directors as such; some acknowledged that they favored directors when their paper was as good as that of others, since they had difficulty in obtaining discounts at other banks. Most of the banks favored their regular patrons when their paper was unquestionable. Of the total discounts on January 1, 1838, of $15,800,000, $2,300,000 had been made to directors. The highest discount to any one director was $121,500; seven directors had received over $40,000 each.[3]

The banks, too, almost unanimously confessed that during the suspension they had discounted to parties on condition that the notes be taken to a distance to be put into circulation.[4] A few, too, had sent out agents, chiefly to Southern points, to buy up their notes at a discount,[5] though the extent to which this was practiced was very small. Although it was prohibited by their charters, the capital of all the banks

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[1] Report of Select Committee on Currency, 1838.

[2] Md. Laws, 1841, ch. 302. The issue of these notes was prohibited after November, 1842. The law of 1844, ch. 111, allowed the issue of notes between five and one dollar in denomination up to ten per cent. of the capital, or at least up to five thousand dollars by each bank.

[3] Report of Select Committee on the Currency, 1838. State Banks, p. 709.

[4] Ibid.

[5] Ibid.

chartered between 1829 and 1837, with a few exceptions, was paid partially with stock notes.[1]

16. *Effects of the Crises of 1837 and 1839.*

As a result of the depression quite a reduction took place in the banking capital of the State, both by voluntary lessening by the stockholders and by failure. Four banks became insolvent, the Franklin and the Citizens', of Baltimore; the Susquehanna, of Port Deposit, and the Planters' Bank of St. Mary's. The closing of the Franklin Bank in 1841 was only a temporary one, due partly to losses and partly to frauds practiced upon it. The public was subjected to no loss at all, and it resumed after a short time.[2]

The failure of the Citizens' Bank was the most important of those that occurred at this time. Its nominal capital had been $500,000 until 1843, when it was reduced to $334,000.[3] In 1844 the stockholders decided to close up its affairs, since it had suffered such heavy losses that they were doubtful of the advisability of trying to restore its capital.[4] Finally, however, it paid all creditors in full, and the stockholders received for their claims $8 per share (par value $10). Their loss, therefore, amounted to about $65,000.

The Planters' Bank of Prince George's County, which, after having failed in 1822, had been restored in 1832, by the desire of its stockholders decided to close up again in 1842.[5] Its nominal capital was $200,000. It was able to meet all its liabilities.

The Susquehanna Bank had been very weak for years. It had suspended in 1818, while operating under the name of the Susquehanna Bank and Bridge Company. About 1824 it was revived, and its name was altered to the Susquehanna Bank. During the crisis of 1834 it required assistance to enable it to keep afloat. Loans were made by various banks of Baltimore. The Union Bank and the Bank of Maryland, before its failure, had each sent it $50,000. But even

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[1] Md. Laws, 1843, ch. 269. [2] Scharf, Chronicles of Baltimore, p. 503.
[3] Md. Laws, 1842, ch. 76. [4] Ibid., 1843, ch. 240.
[5] Ibid., 1842, ch. 204.

with this aid it was unable to stand. In March or April, 1834, it suspended business a second time after a reckless attempt to get into circulation as many notes as possible. Its paid-in capital was $393,319. On March 8, 1834, three or four weeks before its failure, its issue amounted to $128,-925. The first statement after its failure, September, 1834, shows the circulation to have been $328,359. Likewise within the same month the specie had been reduced from $74,289.07 to ninety-seven cents. The deficiency of assets March 8, 1834, was $93,085; in September, 1834, it had increased to $283,353. After its failure and the partial settlement of its affairs, its leading stockholders decided, in 1836, to resuscitate it and pay its liabilities. In some manner it was able to struggle to its feet again, though the old creditors were not paid off. It was unable to stand the pressure of 1837, and in January, 1838, it was again compelled to suspend. A special committee of the Legislature was appointed to examine into its affairs, and they advised that its charter be declared forfeited.[1]

These cases led to further legislation in regard to the method of procedure in closing up insolvent banks. The law of 1841, chapter 302, provided that the Governor, upon information that any bank had refused to pay in specie on demand or had issued small notes in violation of law, should direct the Attorney-General to issue a *scire facias* against such bank. In this case the county court or any judge of it might by injunction restrain the bank from improperly disposing of its funds, and might appoint a receiver if it thought best. The court upon proper evidence could adjudge the charter forfeited and appoint three trustees to settle up the business. Thereupon the property of the bank vested fully in the trustees, and the court might require the bank to execute a deed of assignment to the trustees.

The time consumed in the liquidation of insolvent banks was frequently very long, extending from five to fifteen years

[1] Report of the Select Committee in relation to the Susquehanna Bank, House of Delegates, Apr. 3, 1839.

in some cases. To prevent the trouble of keeping bank notes this long time, while awaiting dividends of the assets, the Legislature enacted that record might be made of such notes in any court of the State and the notes themselves might be destroyed by the sheriff.[1]

In 1842 a *scire facias* was issued against the Farmers' and Millers' Bank of Hagerstown, to show why it had not forfeited its charter. It had secured its charter in 1835, with an authorized capital of $200,000, of which $100,000 was subscribed. $75,000 only, the amount of the specie requirement, was paid in. A committee appointed by the treasurer to make examination reported the $75,000 in specie to be in the possession of the bank. They had, however, allowed the bank to consider $60,000 in certificates of deposit as specie. These certificates of deposit were from the Commercial Bank of Millington, which immediately failed. Its president was the president of the new bank, and, in like manner, when the Hagerstown Bank was on the point of failure, he attempted to start another in Virginia. Under this scheme the Farmers' and Millers' Bank got into operation with but $15,000 in specie. Its notes were sent to friends at a distance for circulation. Its cashier was of great resource, and he managed to keep the concern afloat. At one time there were only four dollars in bankable funds in the institution, and the only specie was some boxes of pennies. On January 18, 1843, the committee appointed to examine it reported its condition as follows:[2]

Liabilities—Circulation	$8,839.00
Deposits	5,464.54
	$14,303.54
Assets—Notes of specie banks	$285.00
Specie	1,725.50
	$2,010.50
Deficit, ...	12,293.04

[1] Md. Laws, 1840, ch. 85.

[2] Report of Special Committee to Legislature, 1843.

The other assets were estimated to be worthless, and no mention was made of the capital stock, which would increase the deficit by $15,000. The bank was allowed to continue on condition that $30,000 be paid in specie, and a specie reserve be held equal to one-third of its notes issued; besides this, it had to meet the other provisions of its charter.[1]

Considerable reduction was made in the capital of other banks, both on account of losses and also because, in the depression succeeding the panics of 1837 and 1839, they were unable to employ profitably their entire capitals. The Chesapeake Bank reduced its capital from $500,000 to $350,000; the Farmers' and Planters' from $1,000,000 to $600,625; the Farmers' and Merchants' from $500,000 to $400,000; the Western from $604,300 to $308,280; the Frederick County from $500,000 to $150,000; the Washington County from $250,000 to $150,000. The Merchants' was authorized to invest $500,000 in its own stock, since it could not employ it all in ordinary banking operations.[2] The voluntary reduction, together with that from failures, amounted in all to $2,325,395; of this amount, at least $715,000 was due to loss.

17. *Other Details.*

In the various great works projected at this time, the Chesapeake and Ohio, the Tidewater and the Annapolis Canals, the Baltimore and Ohio, the Baltimore and Washington, the Susquehanna, the Eastern Shore and the Annapolis and Elkridge Railroads, the State subscribed over $16,300,000. These obligations placed the State under a constantly-increasing debt, even the interest upon which the State revenue was inadequate to pay, after providing for the current expenses. The panic had rendered the negotiation in Europe of loans upon American securities impossible upon favorable terms. Immediately after the suspension of 1837, Maryland made a desperate effort to pay her creditors in gold and silver, but the extent of its obligations compelled the discontinuation of this policy. In 1842 it was unable to

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[1] Md. Laws, 1844, ch. 276.

[2] Ibid, 1843, ch. 85.

pay the interest due. The system of general taxation which had been introduced was not providing sufficient revenue, so in 1843 it was deemed necessary to dispose of the State's interest in the public works, amounting to $11,700,000, but no acceptable offer was made. In January, 1846, effort was made to sell the bank stock belonging to the State to the amount of $510,966. The proposition passed the House by a large majority, but failed by a single vote in the Senate. Through loans from the banks and private individuals, the State was enabled to avoid open bankruptcy until the system of taxation provided an adequate revenue. Resumption of interest payment was made January 1, 1848.

For some years the State had been commuting to money the right to subscribe to the stock of the several banks, and to appoint directors in them. The proceeds were applied to current expenses. This first occurred in 1828, when the Commercial and Farmers' Bank of Baltimore agreed to pay $9533⅓ on condition that the State give up the right to subscribe 286 reserved shares, and also the right to appoint directors. It could still, however, vote on the shares held by it.[1] The right to subscribe 1000 shares in the Union[2] Bank, 5000 shares in the Merchants'[3] and 500 shares in the Hamilton[4] were in like manner offered by the State to the banks at prices varying from $6 to $10 per share. The right to appoint directors in the Farmers' and Merchants' Bank was offered to the bank for $5000, the right to vote on the shares being retained.[5]

In 1841 the fight against bill brokers and note shavers was renewed. The first step was to raise the cost of their license to $3000 yearly. The penalty for exchanging and purchasing bills without a license was fixed at $500 for each offence.[6] The banks were released from all obligation to redeem their

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[1] Md. Laws, 1827, ch. 215.
[2] Ibid., 1827, ch. 216. Ibid., 1827, ch. 185. Ibid., 1833, Resolution.
[3] Ibid., 1836, ch. 154.
[4] Ibid., 1836, ch. 198.
[5] Ibid., 1833, ch. 115.
[6] Ibid., 1841, ch. 282.

notes in specie for any foreign or domestic broker.[1] The next year these conditions were mitigated to considerable extent by a reduction of the cost of license to $50.[2] This was brought about by the inconvenience arising from the mass of depreciated and uncurrent paper money, chiefly of banks of other States, which by means of the brokers could be exchanged for reliable currency.

In 1837 there was further legislation to prevent the fraudulent manipulation of stock in the election of officers. It provided that stockholders intending to canvass the votes must notify beforehand an officer of the bank; this officer, in turn, had to notify all the stockholders residing in the State. Upon voting, each stockholder had to swear that the stock which he was voting was his bona fide property, or was held by him in some fiduciary relation, and was not transferred to him to increase the number of votes. Persons voting by proxy had to make this oath before some qualified officer of the State. Directors had to make oath that they had not acquired shares to qualify themselves for office.

General permission was extended to all the banks in 1844 to make loans upon promissory notes or obligations under seal, secured by mortgage, for any period up to five years at 6 per cent.[3]

In 1833 an act was passed subjecting stocks and funded property to attachment and execution for debt. The proceedings were similar to those regarding real estate.

18. *Increase of Banking Capital, 1843-62.*

By the middle of the century the financial troubles of Maryland, brought on by its participation in the construction of internal improvements, had been adjusted, and the fruits of these public works were being realized in the rapid development of its resources. The canals and railroads were making Baltimore the commercial center and shipping point for the coal, lumber and agricultural products of Western Pennsylvania and the Ohio region. The Southern States,

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[1] Md. Laws, 1841, ch. 302, sec. 8. [2] Ibid., 1842, ch. 257.
[3] Ibid., 1843, ch. 269.

which were almost entirely devoted to cotton and tobacco culture, drew from Maryland a large part of their breadstuffs. From 1848 to 1858 the South American trade of Baltimore was at its zenith.

After the industrial revival which followed the disturbance of 1837-42 had begun, the inadequacy of Baltimore banking capital became a matter of common concern among merchants, and various means were adopted within a few years to stimulate its increase. Old banks were allowed to enlarge their capitals; new ones were incorporated, and savings institutions were changed to regular banks of discount and issue. Some savings banks were allowed the power of issue. Effort was made to secure the passage of a free banking law.

The formation of new banks proceeded gradually from 1843 to 1862; from 1853 to 1858 the rate of increase was a little greater than before. The total number of new banks incorporated, exclusive of those which had been operating before as savings banks, was seventeen, and the amount of capital allowed them by their charters was $3,000,000. One of these banks failed to go into operation, and the charters of two others were repealed by the Legislature, deducting in all $350,000 from the total just mentioned. Two of these banks, representing $800,000 nominal capital, were located in Baltimore.

Seven savings institutions were regularly incorporated as banks and allowed all the privileges usually given to banks under the laws of the State. The conversion of savings banks to regular banks had occurred in two cases previously to this time. The Western Bank of Baltimore had been formed in 1835 from the Mechanics' Saving Fund Society, and at the same time the Fell's Point Savings Bank was authorized to become the Eastern Bank of Baltimore; the latter, however, did not change. The total authorized capital of these seven banks was $1,800,000, of which $1,400,000 belonged to the four located in Baltimore. The chief advantages gained by these banks were the power of issue and less restriction in their investments. The savings banks

were generally limited to investing in bonds and securities; some were allowed to discount up to two-thirds the amount of their deposits. In making the change they became subject to the laws controlling banks generally. Two of them were allowed to continue the practice of receiving weekly deposits and paying interest on them up to 6 per cent.[1] The practice of paying interest on deposits left for a specified time had already become general among the banks.

It is impossible to conjecture the extent of the business done in Maryland by savings banks, except so far as their number gives an indication. Though two or three had been incorporated before 1830, about that time they first became of importance in Maryland. The increase of their number corresponds in time to the increase of the regular banks. Up to 1842 nineteen had been established in the counties and eleven in Baltimore. In most cases they simply invested their deposits and had no capital stock. Between 1842 and 1861 twenty-nine were chartered, eight of which were in Baltimore. Of the total number a capital limit was fixed for sixteen, aggregating in all $2,800,000. They were required to send no reports to the State treasurer, and the magnitude of their operations is unknown. A very small number of failures occurred, only two or three.[2]

One peculiar feature of Maryland savings banks which appears to have developed in no other State, was the right given to some of them to issue notes to circulate as money. This privilege was first conferred by the Legislature in 1844, and by 1860 nine savings banks had acquired this power. In nearly every case it was the subject of a special act of the Legislature, and was not included in the charter. The limit for issues was usually, as for other banks, the amount of the capital paid in. For the Howard Street Savings Bank it was fixed at one-fourth of the deposits, and one-fourth of the deposits was not subject to withdrawal, but formed a

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[1] Md. Laws, 1856, ch. 109. Ibid., 1856, ch. 340.

[2] That of the Maryland Savings Institution in 1834 was the most important. Niles, 1834, May 10 and June 7. Scharf, History of Maryland, Vol. III, p. 176.

fund for note redemption.[1] The Fredericktown Savings Institution was allowed to issue up to $30,000, provided it kept as a redemption fund $15,000 in certificates of Maryland, Baltimore, United States or Chesapeake and Ohio Canal stocks.[2] Others were required to keep a redemption fund of State stocks or specie equal to one-half the issues. In each case the school fund tax was required, twenty cents on the hundred dollars of capital paid in or of notes issued,[3] as the case might be. In one or two cases a bonus also was required, as likewise was an annual report to the treasurer.[4]

TABLE OF MARYLAND BANKS CHARTERED 1843–62.

NAME.	LOCATION.	DATE.	CAPITAL.
Havre-de-Grace	Havre-de-Grace	1843	$200,000
Valley,*	Hagerstown,	1847	100,000
Cecil,	Port Deposit,	1849	100,000
Farmers' and Mechanics' of Kent Co.,	Chestertown,	1849	150,000
Farmers' and Mechanics' of Carroll Co.,	Carroll Co.,	1849	300,000
Howard Co.,†	Ellicott's Mills,	1853	150,000
Easton,	Easton,	1853	150,000
Central,	Frederick,	1853	150,000
Commerce,	Baltimore,	1854	300,000
Farmers' and Merchants',	Greensborough,	1856	100,000
Queen Anne's Co.,	Centreville,	1856	100,000
Farmers' and Merchants' of Cecil Co.,	Elkton,	1862	100,000
American,	Baltimore,	1856	500,000
Patapsco,†	Ellicott's Mills,	1856	100,000
Alleghany Co.,	Cumberland,	1858	250,000
Clinton,	Westernport,	1858	100,000
Delaware City,	Delaware City,	1862	100,000
			$2,950,000

* Did not open. † Charter repealed.

[1] Md. Laws, 1849, ch. 456.
[2] Ibid., 1849, ch. 290.
[3] Ibid., 1849, ch. 325.
[4] Ibid., 1849, ch. 290.

TABLE OF BANKS FORMED FROM SAVINGS BANKS.

NAME.	LOCATION.	DATE.	CAPITAL.
Howard	Baltimore.	1854	$300,000
Exchange	Baltimore.	1856	500,000
People's	Baltimore.	1856	250,000
Union	Hagerstown.	1856	150,000
Frostburg	Frostburg.	1856	100,000
City	Cumberland.	1858	150,000
Fell's Point	Baltimore.	1862	350,000
			$1,800,000

TABLE OF SAVINGS BANKS HAVING POWER TO ISSUE.

NAME.	LOCATION.	DATE.	CAPITAL.
Fell's Point	Baltimore.	1844	$80,000
Hagerstown	Hagerstown.	1846	100,000
Fredericktown	Fredericktown.	1849	. . .
Cumberland	Cumberland.	1849	. . .
Howard Street	Baltimore.	1849	. . .
Somerset and Worcester .	Snowhill.	1858	100,000
Franklin	Frederick.	1860	150,000
Manchester		1860	. . .
Old Town	Baltimore.	1860	. . .

To encourage the growth of banking capital the Assembly made a general law, March 8, 1854, allowing the banks of Baltimore to increase their capitals at times suiting their convenience, simply upon reporting the increase to the State Treasurer and paying the school tax fund. Not less than $100,000 might be added at any one time, and the maximum amounts were as follows:

Banks of $1,000,000 capital and over might enlarge to $2,000,000; banks of $900,000 to $1,000,000 might enlarge to $1,500,000; banks of less than $900,000 might enlarge to $1,000,000.

Between the time of resumption in 1842 and the passage of the above act the old banks had added $289,000 to their

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capital. Within five years after the act was passed $1,458,000 had been added; reductions, however, offset this increase to the amount of $397,000. The total increase of active banking capital from all sources was $2,823,000, from $9,746,000 in twenty banks in 1843 to $12,569,000 operated by thirty-one banks in 1858. From 1858 to 1862 the reduction was greater than the increase from new banks.

19. *Expansion, 1845–57.*

After the period of liquidation which followed the panic of 1839, the banks began again to extend their credit, and in 1847 and 1848 this movement became accelerated under the stimulus of the general industrial prosperity. The enlargement of discounts proceeded regularly until 1854, when a temporary reaction occurred, on account largely of the disturbed condition of financial relations with Europe. After this check the process of expansion continued until 1857. This increase of bank notes, however, to a large extent took the place of the silver coins, which by 1850 had almost entirely disappeared from circulation. From 1850 to 1854 the quantity of money in circulation was too small to perform conveniently its uses, and there was a constant demand for more money.[1] The State attempted to relieve the situation by the charter of new banking companies, by allowing all banks to double their issues, i. e., to issue up to twice the amount of their capital paid in, and finally, by the permission granted to certain savings banks to issue.

The State had always insisted strenuously that the money of denominations under five dollars should be coin, and only under exceptional circumstances had it departed from this rule. In 1851 silver dollars and half-dollars had become so scarce that some of the banks had again adopted the expedient of issuing notes of denominations under five dollars, and the small notes of banks of other States also circulated in Maryland in considerable numbers. The Legislature in May, 1852, forbade both their issue by Maryland banks after

[1] *Baltimore American*, Mar. 19, 1852. *Bankers' Magazine*, Feb., 1853.

March, 1853, and also the receipt or payment of such notes of banks located outside the State under penalty of five dollars for each offence.[1] The inconvenience of the lack of small currency was felt on all sides, and quite an agitation was aroused to procure the repeal of the law. The Baltimore City Council by almost unanimous vote requested this action, but without avail.[2] After 1854 the quantity of specie in circulation increased in a marked manner, owing to the influence of the newly-found gold mines.

Throughout the period 1843-57 the quantity of specie in the hands of Maryland banks was always large in proportion to circulation. During these years there was always an amount of specie in the possession of the banks equal to more than half the circulation, and the ratio of specie to circulation and deposit combined was never less than 1 to 4. The following items from the reports of the banks will show these points:

YEAR.	CIRCULATION.	DEPOSITS.	SPECIE.
1843	$1,743,768	$2,977,174	$2,537,822
1847	2,400,267	3,863,891	2,005,078
1851	3,532,870	5,966,834	2,738,834
1854	4,918,381	8,621,052	3,405,090
1857	5,155,096	9,611,324	3,522,561

The condition of all the banks was sound, and all redeemed their notes in specie; no Maryland bank paper was at a discount within the State. In New York the notes of Baltimore banks were at a slight discount, about equal to the cost of having them exchanged. The notes of the less well-known banks of the State were quoted in New York at a small discount ranging from one-half to four per cent.

The greatest abuses of the period were, first, the issues of unknown and worthless banks, chiefly Western and South-

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[1] Md. Laws, 1852, ch. 235.

[2] *Baltimore American*, Mar. 19, 1852. *Baltimore Patriot*, Jan. 24, 1853. *Bankers' Magazine*, Feb., 1853.

ern, which made their way into all quarters of the country, furnishing a mass of greatly depreciated notes upon the exchange of which the note brokers thrived; secondly, the appalling amount of counterfeiting. The various registers and reporters of counterfeit notes, published monthly or quarterly, gave information to the public of the many counterfeits in circulation.

20. *General Banking Law.*

The call for an increased banking capital led in the early fifties to an agitation for free banking under a general law; the time seemed especially auspicious, too, for this movement, since the old charters had expired in the course of the years 1854-60. The matter was brought up in the Senate in 1852, and a committee was appointed to consider it. The committee viewed the proposition favorably, and offered a bill which resembled in most respects the New York law of 1838.[1] The committee recited that in its estimation freer access to banking privileges would be an advantage, and that banking operations could be conducted as well under a general law as under separate charters, and that, except when necessary, the Constitution of the State discountenances the granting of special corporate powers.[2] It was argued that the government owed to the people security from loss on the currency, the issue of which was a function of sovereignty which had been bestowed upon the banks, and the committee could see no means of securing protection of notes otherwise than by requiring as security from all institutions having the power of issue, the pledge of property to at least an amount equal to their circulation. The policy of the banks of Venice, Barcelona, Genoa and England had been to invest their capital in permanent securities, and to use the credit for purposes of discounting. Several of the United States had adopted the plan, and in practice it had worked well.

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[1] Report of Select Committee . . . on a General Banking Law, Mar. 30, 1852. [2] Ibid., p. 1.

The innovations proposed in the bill were as follows:

1. Organization. Any number of persons might associate to establish offices of discount, deposit and issue. They must specify the name and location of the institution, its capital and the amount of each share, the name, residence and number of shares of each stockholder, and the date of commencement and expiration of the institution.

2. The president was required to make a list of stockholders, and the number of shares held by each, and to file it in the office of the clerk of the Circuit Court.

3. Upon application of a thousand stockholders, any court or judge possessing equity jurisdiction might order an examination by the auditor of the court or by a special commissioner, to ascertain the safety of the public interests, and the results of the investigation were to be published.

4. Upon deposit of United States or Maryland 6 per cent. bonds with a State officer, the officer was directed to sign and register notes for circulation, furnished by the bank, to an amount equal to the bonds deposited. Such notes were to be stamped "Secured by the Pledge of Public Stocks." The banks by powers of attorney were to continue to receive the interest on the bonds, unless the bank failed to redeem its notes or the State officer thought the security was becoming insufficient. After protest of a bank's notes, and after an order had been issued upon the bank for their payment by the specified State officer, the officer was directed to redeem the notes and to auction the bonds for this purpose.

5. No officers were allowed to borrow.

6. Banks might increase their capital at will.

7. Statements were to be rendered to the State whenever required; upon failure to give them, the business operations of the bank were to cease and a receiver was to be appointed by any court or judge having an equity jurisdiction.

These were the leading provisions which it was proposed to introduce into Maryland banking law at this time. Their strong feature was the security which they offered for bank notes, the beneficial operation of which system in several

States was attracting attention at this time.[1] However, the question of special security for bank notes was not then a sufficiently vivid one to be effective in the passage of the bill. Little or no loss had occurred in Maryland from this source for twenty years. On the other hand, the deposit of bonds equal to the amount of notes issued tended to restrict elasticity of the currency; the banks would generally deposit in bonds the amount of their average issues, to avoid the investment of so much of their funds in this manner which they might employ more profitably in discounting. Any response to the demands of industry would thus be slow and unnatural. This was the direct opposite of the object desired.

Leaving out of consideration the security of note issues, in some other respects the bill was weak. The careful provisions in regard to the payment of capital which had been found necessary in practice, were wanting, and any details or adjustment to suit special cases was impossible in a general law.

After somewhat considerable discussion in the Senate the bill was tabled.[2] At the following session of the General Assembly the question was revived and referred to the Committee on the Currency, but no action was taken.[3]

A general banking law was, however, adopted in 1853, but it was simply a collection of the laws of the State governing banks, with a few modifications, reënacted in a single law, and all the banks were made subject to it, both those already existing and those subsequently chartered. The occasion of the passing of the law was the expiration of the charters of twenty banks of the State. These were all continued to 1880, subject to the restrictions of the law. The only new regulations were the following:[4]

1. Regulating voting.

For 1–10 shares, the holder was entitled to 1 vote each.

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[1] Cf. Report of Select Committee . . . . on a General Banking Law, March 30, 1852. [2] *Md. Senate Journal*, Apr. 13, 1852

[3] Ibid., 1853, pp. 290 and 451. [4] Md. Laws, 1853, ch. 441.

For 10–100 shares, the holder was entitled to 1 vote for every two.

For 100 and over, the holder was entitled to 1 vote for every five.

2. The president and majority of the directors were to constitute a board for ordinary business and discounting.

3. Discounts and loans for directors were absolutely prohibited, under pain of fine or imprisonment for violation.

4. Interest upon deposits was limited to 3 per cent. per annum.

5. The State Treasurer was to have a semi-annual statement of the condition of each bank, which was to be published in the county in which the bank was located.

6. The school fund tax was continued.

The free banking principle was entirely omitted; the Legislature continued to hold within its hands the power to extend banking privileges. No special provision was made for the security of bank notes. The regulations of the law were much more minute than those of the free banking bill proposed in 1852.

The Act of 1854, chapter 152, should be taken in connection with the above law. By the general law issues, as previously, were restricted to the amount of the capital paid in; by the law of 1854 banks having a paid-in capital of less than $250,000 were allowed to issue up to double that amount. The explanation of this step lies in the fact that the amount of currency was found to be inconveniently small;[1] the extension of bank issues was the most available remedy at hand.

21. *Crisis and Suspension of 1857.*

The continual expansion along all lines throughout the entire country during the years 1842-57 culminated in disaster in 1857. The speculative condition of industry stimulated the issues of the banks until in 1857 a climax was reached. The currency, becoming increasingly inflated from 1853 to 1857, was highly conducive to over-trading, over-importation, stock speculation, etc. The reaction was

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[1] See p. 114, et seq.

first felt in the Western States in the summer of 1857, and many Eastern firms, creditors of Western concerns, soon failed. Bills on Eastern points were at 10 to 15 per cent. premium. New York was the first Eastern city affected by this panicky state of affairs, but until the middle of October its banks were able to resist suspension. A run began on the deposits of Eastern banks in September, and on September 25 the banks of Philadelphia suspended; on the 26th those of Baltimore did likewise, and the banks of Cumberland, Frederick and other towns followed soon.[1] The deposits of Baltimore banks January 4, 1858, were $1,683,861 lower than on the same day of the previous year. This heavy drain upon the specie reserve reduced its amount $829,359.

The condition of the banks was sound, but suspension was a matter of self-preservation when the creditor banks of Philadelphia had suspended and those of the South were on the point of doing so. Every facility in the line of discounts within their power was rendered by the banks to relieve the situation. By January 1, 1858, the diminution of discounts was $902,256, less by almost half than the withdrawal of deposits. The amount of circulation outstanding decreased $337,000. Even after this strain the condition of the Baltimore banks was comparatively strong.

Items of Baltimore Bank Statements, 1851–1858.*

Date.	Capital.	Discounts.	Specie.	Circulation.	Dep't.
Jan. 6, 1851	$6,101	$11,783	$2,330	$2,281	$4,528
" 5, 1852	7,141	11,428	1,967	2,180	3,912
" 3, 1853	7,291	14,291	2,992	3,328	6,021
" 2, 1854	7,592	14,969	2,848	2,956	6,962
" 1, 1855	8,576	14,279	2,485	2,638	5,858
" 7, 1856	9,065	16,397	2,832	3,388	6,485
" 5, 1857	9,777	18,704	2,998	3,395	7,765
" 4, 1858	10,160	17,802	2,169	3,058	6,082

* *Bankers' Magazine*, Vol. VII, p. 655. (Three figures omitted.)

[1] *Bankers' Magazine*, Vol. VII, p. 426.

The money market in Baltimore grew tighter toward the end of 1857, and interest was charged at 1 to 1½ per cent. per month. Exchange on New York was 4½ to 5 per cent. premium. An effort was made in New York to resume December 13, and discounts were contracted and specie procured for this purpose.[1] The time seemed rather unfavorable, since the exportation of specie at the rate of $2,000,000 or $3,000,000 a week had succeeded the importation of a few weeks previous. Baltimore bank notes were at par in Maryland, and those of country banks were at very slight discount. The public seems to have exerted very slight pressure upon the banks to resume. The Baltimore *Patriot*, speaking of resumption, said: "The banks, we feel confident, are amply prepared to meet any emergency, but as a mutual dependence and reciprocal interest exist between them and the community, neither can entertain any desire to hamper or oppress the other. Whatever advantage can arise from a state of suspension, let it be enjoyed, allowing ample time for all to participate, as far as prudence may dictate. Business must be resumed and take an active turn before wonted ease and confidence find full restoration. Viewing matters in this light, we are safe in asserting that resumption of specie payments by our banks, at so early and injudicious a period as the first of January next, is not contemplated."[2] The banks, though able to resume at any time, preferred to wait for a general resumption, or at least until after the Philadelphia banks had resumed, the time for which had been set at April 1, 1852.[3] The Virginia banks also resumed about this time.

The greatest nuisance of the suspension was the mass of foreign depreciated paper, which could only be disposed of through the bill brokers by paying a large discount. The banks would not receive it; in fact, again, as in the suspension of 1814, the Baltimore banks refused to receive the

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[1] *Baltimore American*, Dec. 14, 1857. *Bankers' Magazine*, Vol. VII, p. 583. [2] *Baltimore Patriot*, Dec. 20, 1857.

[3] *Baltimore American*, Jan. 7, 1857.

notes of Maryland country banks, which not only caused great inconvenience, but also reacted upon the banks, causing a greater depreciation of their paper.[1] This condition of affairs offered opportunity to the banks of making arrangements with brokers and of sending out agents to buy up their notes at the lowest possible prices. This scheme was worked not only by the country banks, but also the city banks quietly sent their agents to foreign points for this purpose.[2]

In the spring of 1858 there was an agitation for the publication of weekly statements by the banks, a custom which had been introduced in New York in 1853. At the spring session of the General Assembly a bill was presented to compel the Baltimore banks to publish a weekly statement and those of the counties to publish one monthly in some one paper of their respective counties. The measure failed in the House of Delegates by a vote of 38 to 28.[3]

The failure of two country banks, both of Allegany County, resulted from the crisis. The Cumberland City Bank, which had been established in May, 1858, made an assignment on November 26 of the same year. Noteholders and depositors were made preferred claimants. The loss could not have been large. The report of the trustees, January, 1859, shows the following items:[4]

Liabilities—Circulation	$23,857
Deposits and Notes of Banks	836
	$24,693
Assets—Cash	$3,478
Banks	1,613
Discounts, Good	12,803
" Doubtful and Bad	11,603
	$29,497

[1] *Baltimore American*, Oct. 21 and 27, 1857. [2] Ibid., Oct. 27, 1857.
[3] Ibid., Mar. 10 and 13, 1858.
[4] Scharf, Western Maryland, Vol. II, p. 1447. Lowdermilk, History of Cumberland, p. 386.

The Mineral Bank, also located in Allegany County, failed October 5, 1857. The total liabilities were $199,681. The trustees paid 83½ cents on the dollar and the expenses of settlement.[1]

22. The Baltimore Clearing House.

Just after resumption in 1858 the banks of Baltimore resolved unanimously to form a clearing house. It began business Monday, March 8, 1858. In its purpose and operation it is very similar to those of New York, Boston and Philadelphia, though there are differences of detail arising from differences in the magnitude of business transacted.

The purpose of the association was stated to be "a more perfect and satisfactory settlement of the daily balances between them and the promotion of their interests." The daily exchanges were to be effected at one time and place, and at the same place the payment of balances resulting from the exchanges was to be made. The depository bank was to be in nowise responsible in regard to exchanges and balances, except so far as balances were actually paid into the bank. The bank was not bound to admit reclamations for errors in money paid out under its seal, where the money had passed into the hands of parties not members of the association. Errors in the exchanges and claims arising from the return of checks or from other causes, were to be adjusted by 11 o'clock A. M., directly between the banks which were parties to the transaction, and not through the clearing house. In case of refusal or inability of any bank to pay promptly checks, drafts or other items returned as not good, the amount of such items was to be deducted by the manager from the settling sheet of both banks.

The officers were to be a president, vice-president, secretary and an executive committee of five, all chosen annually. Each bank had to be represented at every meeting, and was entitled to one vote. The executive committee were to investigate any matter referred to them pertaining to the bank-

[1] Scharf, Western Maryland, Vol. II, p. 1447. Lowdermilk, History of Cumberland, p. 385. Md. Laws, 1858, ch. 291.

ing interests of the city; they had charge of disciplining, examining and suspending members of the association.

The association appointed one of its members a depository of such money, derived from the exchanges, as any of the banks cared to leave on special deposit, for safe-keeping, and for this the depository was to issue certificates signed by the cashier or president, which might be received in payment of balances, at the clearing house, and which were negotiable only among the associated banks. Money on special deposit could not be used by the depository bank for any purpose but the payment of certificates.

The depository bank had the whole management, and did all the service of the clearing house, paid all expenses, and was responsible for the money received by it in payment of balances due by the various banks. For these services the depository bank received annually thirty cents on the $1000 of the capital of each bank belonging to the association.

Admission to the association was obtained by application to the executive committee, which had an examination made of the bank applying. A three-fourths vote of the association gave admission. All banks, members of the association, had to have their principal office in Baltimore, and had to be organized under the laws of Maryland, with a paid-up capital of at least $200,000. An admission fee of $500 was charged. The cashier of the depository bank was by the constitution the manager of the clearing house, and he had charge of the transaction of all business.

The method of business was as follows: The hour for exchanges was 9 A. M. sharp. For five minutes' tardiness or less a fine of one dollar was imposed; for the second five minutes' tardiness, or part of it, one additional dollar fine; for over ten minutes late the fine was three dollars. One dollar fine was imposed if errors in exchanges were not corrected before 11 o'clock. By 11 o'clock the debtor banks paid the balances due from them either in money or certificates. One dollar fine was payable for failure to appear at this time. The creditor banks at 12.30 P. M. could receive the balances due them in money or certificates, at their op-

tion, provided by that time all the debtor banks had paid. Any member unable to pay its indebtedness to the clearing house on any day had to return all checks, drafts, notes and bills of exchange that had been presented to it that day, and the manager returned them to the members from whom they were received, and they reimbursed the clearing house to that amount. If any member failed to pay its balance by 11 o'clock, and did not return the checks and other instruments received, the executive committee and the bank were notified by the manager, and if by 12.30 the balance was not paid, the bank was ruled out by default, and the other banks immediately reimbursed the clearing house to the amount of their balances against the defaulting bank for that day.

The chief point of difference from the New York plan was the appointment of one member of the association the depository bank, in whose banking rooms the transactions of the clearing house were performed, and whose cashier was manager of the clearing house. The smaller number of banks clearing and the smaller amount of business cleared in Baltimore, in comparison with other cities, permitted this less specialized form of organization. The number of banks clearing at this time was 31. No accurate indication of the extent of clearings before 1864 can be given. Statements of these facts were never published by the clearing house at the time, and the records of these years have been destroyed. No clearing-house loan certificates had been issued up to 1864.

23. *Suspension of 1860.*

The recovery from the crisis of 1857 was very rapid; the first nine months of the year 1860 was one of the most prosperous seasons in our history. The grain crops were good; the cotton production was unparalleled. After the fall election, however, the attitude of the South created great alarm, and the previous expansion gave way to contraction and preparation for the threatening emergency. Diminished imports brought considerable gold into the country. The banks were strengthening their position. A change of tariff

reduced the revenue from this source, and to meet its needs the government issued $250,000,000 in treasury notes.

The commercial and financial relations of the Northern cities with the South were in a very uncertain condition, and Northern creditors were eagerly trying to insure themselves by early settlements of their affairs with Southern correspondents. Immediately after the election the Southern banks felt the withdrawal of their gold, and it was thought that political motives had much to do with the removal of their specie resources to Northern banks. At any rate, the Virginia banks decided that their commercial, financial and political interests demanded that they stop this flow to the North by suspension, which they did November 20. Other Southern banks followed on succeeding days.[1]

This course necessitated the same action upon the part of Baltimore and Philadelphia banks, which were heavy creditors in Virginia and elsewhere in the South. They accordingly suspended November 22. Such a contingency had been anticipated, and preparation had been made for it in Baltimore, but the restriction of the banks was inflicting upon the commercial community the greatest hardships. For several days preceding the suspension it had been almost impossible to negotiate loans upon any terms.[2] This stringency was alleviated after the suspension as far as circumstances permitted, and the public reaped a substantial benefit. This is shown in a comparative statement of the Baltimore banks for January, 1860, and January, 1861:

	JAN., 1860.	JAN., 1861.
Capital	$10,328,120	$10,408,120
Investments	679,300	679,300
Discounts	17,533,728	18,767,936
Circulation	3,182,106	2,670,296
Deposits	7,351,519	7,656,798
Specie	2,360,870	1,850,522

[1] *Bankers' Magazine*, Vol. XV, p. 485.

[2] *Baltimore Patriot*, Nov. 22, 1860. *Baltimore American*, Nov. 22, 1860.

During February and March, 1861, the banks of both Philadelphia and Baltimore prepared for resumption, but the suspension continued in the South, and rendered the resumption of specie payments in Maryland hazardous. Affairs generally, however, soon wore a much more serious aspect, and resumption was indefinitely postponed.

In the fall of 1861 the government borrowed $100,000,000 in gold of the banks. It was desired by the banks that the Secretary of the Treasury leave this money with them and call for it as need required; this, however, the Secretary refused to do, and the specie of the banks was drained in paying the instalments of the loan. Again, the Secretary had no strong policy to put forward for the government, and matters went from bad to worse. The drain of gold continued throughout November and December, 1861, and the banks generally drifted into suspension toward the last of December without great resistance.

Gold immediately rose to 1 to 2 per cent. premium. The quantity of bank paper and treasury notes, perhaps $400,000,000 in all, drove the gold from circulation. The government, to tide it over the crisis, began in April, 1862, the issue of legal tender paper money. The premium on gold increased and exchange became very high. By August, 1862, all specie had disappeared from circulation. Further issues of legal tender notes followed, and the inflation proceeded until gold was at 140 to 150, and later in 1863 at 200 to 220. American bonds could not be sold abroad, and to create a market for them the National Bank Act was passed February 25, 1863, though it did not become operative until the next year.

After the issue of government legal tender notes had begun, the banks redeemed their notes in this government paper when required, but the restoration of specie payments did not occur until 1879.

The protracted suspension and the entire disappearance of metal money at an early date necessitated legislation in Maryland to prevent the infliction of the penalty prescribed

for suspension—forfeiture of charter—and to provide a small currency. In May, 1861, it was made legal for the banks to use notes or certificates of deposit less than one dollar up to 10 per cent. of the capital paid in, though any bank might issue $5000 in this manner. The act only applied to banks already having the power of issue, and its duration was limited to two months after the session of the General Assembly in 1864.[1] The following year (March, 1862) this law was repealed, and the banks were allowed to issue up to 20 per cent. of their paid-up capital in notes under five dollars, but none were to be under one dollar in denomination.[2] This law was to terminate May 10, 1864. By the law of 1864, chapter 13, the privilege was continued indefinitely.

Article 12, of the Code of General Public Laws, rendering banks suspending liable to forfeiture of their charters, was amended by the Act of May 3, 1861,[3] so that no corporation authorized to issue notes for circulation was subject to any forfeiture or penalty for not redeeming in specie before March 11, 1862. On March 8, 1862, the exemption was extended to March 11, 1864.[4]

The great number of counterfeits current led to the repeal of the old law and the substitution of one more carefully worded, so as to prevent evasions. The penalty, two to ten years in the penitentiary, was continued.[5]

During the first year of the suspension the discount line of Maryland banks advanced about $1,500,000, though the amount of circulation decreased. During 1862, in the midst of inflation, Maryland banks expanded beyond prudence. The discounts increased $6,500,000 within the year; the circulation jumped up $2,900,000 and the deposits $6,100,000. The quotations of stock for January, 1862, and January, 1864, show the effects of the expansion. Whereas in 1862 the stock of most of the Baltimore banks was more or

[1] Md. Laws, 1861, ch. 11.
[2] Ibid., 1862, ch. 138.
[3] Ibid., 1861, ch. 6.
[4] Ibid., 1862, ch. 178.
[5] Ibid., 1862, ch. 82.

less below par, by 1864 the increased profits from a large circulation had raised them all to a premium. The same process continued throughout 1863, and in January, 1864, the Baltimore banks were in a condition which would have been risky under any other circumstances than in a general suspension. Loans were increased $2,200,000 during the year, and circulation and deposits increased proportionately. A comparative statement of their condition in January and July, 1863, and January, 1864, follows:[1]

RESOURCES.	JAN., 1863.	JULY, 1863.	JAN., 1864.
Loans	$18,884,027	$19,780,917	$21,058,135
U. S. Stocks . . .	2,352,522	3,177,201	3,630,775
Real Estate . . .	414,450	360,526	444,154
Other Stocks . . .	937,039	49,014	1,488,702
Due from Banks . .	1,701,512	1,443,308	1,654,096
Notes of Banks . .	1,718,238	1,800,485	2,555,780
Specie	1,810,663	1,967,179	1,553,495
Totals . . .	$27,818,451	$28,578,630	$32,385,137
LIABILITIES.			
Capital	$10,305,295	$10,305,295	$10,305,295
Circulation	4,562,875	4,800,860	6,421,059
Deposits	9,917,620	10,522,446	11,410,590
Due to Banks . . .	1,800,879	1,758,022	2,469,361
Profits	1,231,782	1,193,007	1,742,468
Miscellaneous . . .	. . . .	. . . .	36,364
Totals . . .	$27,818,451	$28,578,630	$32,385,137

24. *Effects of the National Bank Act.*

The passage by Congress of the National Bank Act, or, as it was entitled, "An Act to provide a national currency," primarily a financial scheme to float bonds necessitated by the Civil War, brought before the State banks the question

[1] *Bankers' Magazine*, Vol. XVIII, p. 771.

of reorganization. The defects and incompleteness of the first act, passed in February, 1863,[1] rendered its effect upon the State banks comparatively slight. In Maryland but one bank, the Fell's Point, asked permission of the Legislature to reorganize.[2] The law passed in June of the following year[3] was much more effective in producing the desired results, and finally by the taxation of all State bank notes at 10 per cent. on July 1, 1866,[4] nearly all the old banks were driven over to the form of national banks.

The question was raised whether or not the State banks might change to national banks without the State's permission. The Fell's Point Bank had taken the precaution to secure this by a special act of the Legislature. The other banks remained under their State charters until after the doubt was put at rest by the passage of an "enabling act" by the General Assembly, March 24, 1865.

The matter was complicated by the fact that the State held considerable bank stock, and was otherwise the creditor of the banks. Further, the State system of free public education was largely dependent upon the receipts from the free-school tax upon banks. In view of these facts the General Assembly was not eager to allow the banks to pass from its control. In 1864 a joint committee of both houses was appointed to make inquiry in regard to the reorganization of the banks under the National Banking Act.[5]

The committee called in the testimony of the Hon. Alexander Randall, the Attorney-General, on the disputed points. First, in regard to the State's claims upon the banks, he decided that as stockholder the State had no priority over other stockholders or creditors in event of failure or liquidation. As creditor in other claims he argued that the State had priority by virtue of its prerogative as sovereign, which priority would be lost if the banks became subject to the na-

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[1] 12 Statutes at Large, 665.
[2] Md. Laws, 1864, ch. 307.
[3] 13 Statutes at Large, 99.
[4] Ibid., 484.
[5] *Journal of Maryland Senate*, 1864. Proceedings of House of Delegates, 1864.

tional law; furthermore, the State would have no control over them.

The committee asked whether or not the State had power to prevent the reorganization under the National Act. Any such action, the Attorney-General thought, would be an attempt to nullify a law of Congress, and hence unconstitutional. The only influence which it could exert was by voting its shares as stockholder when the stockholders in general meeting decided what course they would take. Likewise in regard to the enforcement of the school fund tax from the converted banks, the principle established in the leading case of McCulloh vs. Maryland[1] was conceded to remove all power of constraint on the part of the State.[2]

Being thus unable to prevent the conversion of the State banks into national banks, the Legislature, in accordance with the advice of the committee, passed, March 24, 1865, "An Act to enable any bank, savings institution or savings bank of the State to become an association for the purposes of banking under the laws of the United States."[3] This privilege was conferred upon condition that banks making the change first comply with all the requirements of the act of the first session of the Thirty-eighth Congress of the United States, entitled, "An Act to provide a national currency," etc. A bank might change if the owners of three-fourths of the stock expressed their consent in writing to that effect, or if at a special meeting of the stockholders, voters holding two-thirds of the stock so desired. At this meeting one vote might be cast for every share, and the State Treasurer voted the State stock. If the stockholders decided to change, the directors, or a majority of them, could execute the organization certificate and such other papers as were necessary, and could perform all other acts necessary for the conversion.

The bank was ordered to present to the Clerk of the Court

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[1] 4 Wheat. 436. See p. 72.

[2] Communication from Hon. Alex. Randall to the General Assembly, Mar. 7, 1865.

[3] Md. Laws, 1865, ch. 144.

of Appeals of Maryland a certificate from the Comptroller of the Currency that the bank concerned had become a national bank; this certificate was to be recorded by the clerk, and a copy sent to the Governor, who was to have it published in the locality of the bank. Its charter was considered to be surrendered and its corporate powers to cease, though it could continue to use its corporate name in closing its affairs. No State bank money was allowed to be reissued for more than one year after the surrender of the charter.

Contrary to the opinion of the Attorney-General, all taxes were to be continued as before. All the assets without further transfer were to vest in the association, and it became responsible for all debts incurred previously to the surrender of the charter. Destruction of all plates and dies was provided for.

Within the year 1865 twenty-four banks passed over to the new form; only six State banks were left in 1867; these continued in existence as State banks until after 1871, when at different intervals all became national banks except two, the People's of Baltimore and the Hagerstown. A small number of savings banks, perhaps two, also changed over in 1865.

Although in the enabling act the State tried to continue in force the taxes which had formerly been collected, it was unsuccessful. By 1867 the school fund tax had dropped from about $35,000 to $3805, and the banks refused to pay it.[1]

In 1866 it was decided to dispose of the State bank stock, amounting then to $463,406,[2] and the Governor, Comptroller and Treasurer of the State were authorized to sell it at not less than its par value, and to invest the proceeds in funded debt of the State.[3]

25. *Conclusion.*

In the economic condition of Maryland after the close of the Revolutionary War is to be found the natural explana-

[1] Report of Comptroller of Currency of Md., 1867. [2] Ibid.

[3] Md. Laws, 1866, ch. 170. Ibid., 1872, ch. 275. *Bankers' Magazine*, Vol. XX, March.

tion of the introduction of banking into this State. In the face of an important and rapidly-developing commerce, and feeling the inconvenience of a very limited circulation of foreign coins of unstable value and of depreciated American paper money, the State Legislature persistently refused further issues of bills of credit. Under such circumstances the citizens turned to a study of other commercial States, Scotland, England, Holland and Genoa, and resolved that it would be expedient to establish a bank. This close relationship between the industrial development of the State and her banking facilities is a noticeable feature of Maryland history. The periods of banking expansion have in each instance been times of corresponding industrial development and prosperity, and the enlargement of banking facilities has kept pace with the growing industrial needs. The development of the resources of the State was the object of a general extension of banking advantages to the counties in the years 1810-12. About the same time this feature comes out strongly again in the part the banks played in the internal improvements of the State, when they entered actively into the work and actually became jointly incorporated as turnpike road companies. The value of the service of the banks to the State can hardly be exaggerated. On the other hand, there has been comparatively little of deleterious effect. Very few speculative attempts of individual capitalists have occurred. Vices of practice have existed, as under all systems, but willful fraud upon the public has been rare. Since 1820 the necessary loss by the public from insolvent banks has been remarkably small. From 1820 to 1864 but two failures occurred in the city of Baltimore. No radical steps for the cure of evils became necessary.

Maryland banks were rendered of a public character in two ways. First, by a State subscription to the capital stock of the early banks, and the reservation of the privilege to subscribe in all; and, secondly, by providing an opportunity for all to subscribe to the stock of the banks at the time of their organization by an allotment of their stock to Balti-

more and the various counties for subscription. This ceased to occur as soon as the general extension of banking reduced the monopolistic element to a minimum. The further step of free banking under a general law was not taken in Maryland;[1] it preferred to retain closer control by necessitating special legislative enactment to suit the requirements of each case. Although under these conditions opportunity for political bargaining was offered, nevertheless no evidence has been found indicating that other considerations than the public interest were of weight in the decision of measures brought before the Legislature, except in the first few years of banking in the State.

The chief elements of the system appear in the first charter; (1) special legislation in each case, (2) broad regulations, liberal powers, freedom of action, few restrictions. An eager competition, enforcing prompt attention to contracts, rendered careful administration a necessity for survival. In the first place the ideas adopted were not native to Maryland, but had been worked out elsewhere, notably by the Scotch banks and the first Bank of the United States. In the adaptation of principles to suit Maryland conditions, the State's own experience was the teacher, and changes were only introduced when deficiencies appeared under the actual working of the system. Very little was developed that was new; at the same time, disastrous experimentation, under which other States suffered so much, was avoided. Even the lead of more progressive States was not followed in the adoption of advance ideas.

The lack of uniformity in the regulations controlling the various banks was for a long time a source of confusion. This was partially remedied by making all the banks subject to the fundamental principles of the charter of the Merchants' Bank of Baltimore in 1835, and further, by the passage of a general banking law in 1852. State inspection for

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[1] A free banking law was passed in 1870.

public security alone, and not by the State as stockholder, was arrived at long after it had been adopted by other States. Stockholders and directors, except in cases of maladministration, were never made personally liable beyond the extent of their shares. There were no preferred claimants in case of insolvency.

The issue of notes was competitive, upon the general credit of the banks. Issue upon the deposit of bonds was rejected to preserve a greater elasticity of the currency and greater possible profits. The payment of interest on deposits was general from an early time, and stimulated to the utmost economical habits on the part of the public. The practice of daily settlements among the Baltimore banks rendered necessary the exercise of the greatest skill and care in administration, and the brisk competition between each other and the branches of the two United States banks, for a large part of the time, was most salutary.

In the performance of their functions they responded to the needs of the State at all times as well as might be under the circumstances. Maryland's central situation as creditor of the South and debtor of the North must be constantly borne in mind in understanding the position of her financial institutions. After the period 1814-20, during which the Maryland country banks were in wretched condition, the Maryland banks never ceased to redeem on demand in specie except during times of general suspension. A number of crises were passed with comparatively little inconvenience to Maryland's business men. The cases of insolvency have been remarkably few in Baltimore, three in all, with no loss ultimately falling upon depositors and noteholders. Since 1820 bankruptcy has concerned but five county banks; only two of the five were of any consequence, and the loss was small.

In answering the final questions we can say that the currency was always highly elastic, ultimately secure, excepting the period 1814-20 for the country banks, and convertible upon demand except in time of general suspension. For the

shareholders they earned fair dividends, not large, except in the first few years. They collected the free capital and turned it to the assistance of every form of industry within the State. A long period of very conservative banking won the entire confidence of the people. The Legislature did not intrude upon the banker's domain. To this strongly conservative spirit was doubtless due to large extent the success of a system which, owing to its freedom from restrictions, proved deficient under other circumstances.

APPENDIX I.

MARYLAND STATE BANK STATISTICS.

TABLE I.

The circulation and deposits of Baltimore State Banks (except the Bank of Maryland), from January 1, 1817, to January 1, 1830:

JAN.	CIRCULATION.	DEPOSITS.	TOTAL.
1817	$2,727,230	$2,108,560	$4,835,790
1818	1,742,780	1,697,290	3,440,070
1819	1,662,320	1,248,470	2,910,790
1820	1,229,540	1,226,690	2,456,230
1821	1,020,080	1,382,850	2,402,930
1822	1,214,030	1,533,440	2,747,470
1823	1,031,750	1,261,330	2,293,080
1824	1,113,750	1,441,160	2,554,910
1825	1,537,610	1,581,850	2,936,460
1826	1,519,190	1,528,220	3,047,410
1827	1,347,690	1,629,620	2,977,310
1828	1,272,190	1,724,160	2,996,350
1829	1,422,970	1,633,010	3,055,980
1830	1,299,760	1,349,770	2,649,530

TABLE II.

Totals of Resources of Maryland State Banks, 1834–64.

YEAR	BANKS.	LOANS AND DISCOUNTS.	STOCKS.	DUE FROM BANKS.	REAL ESTATE.	NOTES OF BANKS.	SPECIE FUNDS.	SPECIE.	OTHER RESOURCES.
1834	8	$8,530,786	$497,295	$430,239	$419,397	$924,045	....	$595,505	....
1836	14	9,520,683	1,705,706	1,699,711	464,903	715,366	....	972,090	$103,650
1837	21	14,986,487	1,678,515	1,396,558	530,141	1,521,432	....	1,139,347	65,543
1838	22	15,813,006	1,505,641	2,806,764	541,687	1,452,146	....	1,259,908	57,649
1839	22	15,844,163	1,899,352	1,933,601	553,818	1,358,239	....	1,679,066	148,910
1840	21	13,593,642	1,910,092	1,611,042	505,290	1,116,667	....	1,319,559	72,555
1841	21	12,554,889	939,953	2,007,906	504,433	1,022,382	....	1,556,020	137,311
1842	20	11,442,062	1,673,811	1,551,242	594,771	882,588	....	1,553,621	158,582
1843	20	10,547,920	1,009,449	857,213	596,596	586,900	....	2,537,822	95,130
1844	20	10,104,829	1,540,833	1,542,912	623,050	620,853	....	3,790,905	195,808
1845	20	11,842,172	1,215,146	1,000,531	636,137	666,245	....	2,200,580	82,661
1847	14	11,503,278	726,074	619,653	432,066	636,273	....	2,005,078	....
1848	20	13,291,129	706,173	764,506	527,530	609,456	$99,785	2,244,884	4,302
1849	20	12,384,850	829,269	903,234	450,736	743,339	24,000	2,145,013	1,132
1850	21	13,767,558	966,080	1,068,587	384,760	790,505	59,789	2,468,235	19,682
1851	23	14,850,479	946,690	1,144,077	421,248	965,795	76,796	2,738,834	53,758
1853	19	15,135,587	683,512	1,991,902	328,813	1,100,380	127,143	2,838,071	21,987
1854	25	18,358,441	825,339	1,681,036	321,007	158,827	1,595,092	3,405,090	28,256
1855	29	17,588,718	618,295	1,490,609	333,930	1,566,361	96,518	2,987,225	595,223
1856	31	20,616,005	644,600	1,649,166	318,896	1,482,744	82,961	3,398,101	698,890
1857	31	22,293,554	758,278	1,894,791	402,217	1,666,663	9,168	3,522,561	23,528
1858	31	21,804,111	644,318	3,226,112	417,925	1,473,413	3,164	2,614,728	14,741
1859	32	21,854,934	892,965	1,017,641	484,825	69,863	1,521,663	3,120,011	67,574
1860	31	20,898,762	848,283	1,657,016	505,179	1,897,218	....	2,779,418	41,500
1861	31	22,299,233	635,685	1,874,439	539,329	1,524,228	....	2,267,158	....
1862	28	17,440,111	856,425	1,837,068	540,089	1,469,799	120,476	3,682,471	8,420
1863	32	23,919,669	3,899,242	2,553,068	999,035	2,025,970	130,656	2,750,183	81,760
1864*	16	21,058,135	5,119,477	1,654,096	444,154	2,555,780	....	1,553,495	....

* Baltimore banks only

TABLE II.—*Continued.*

Totals of Liabilities of Maryland State Banks, 1834-64.

YEAR.	BANKS.	CAPITAL.	CIRCULATION.	DEPOSITS.	DUE TO BANKS.	OTHER LIABILITIES.
1834	8	$5,270,091	$1,433,698	$3,125,035	$596,236	. . . .
1836	14	7,662,639	1,923,055	3,264,186	2,004,560	. . . .
1837	21	10,438,655	3,310,835	4,840,477	1,443,476	$705,139
1838	22	11,249,319	3,002,085	3,401,238	2,689,978	1,105,065
1839	22	11,419,999	3,798,067	4,219,932	2,151,469	1,138,590
1840	21	10,526,494	3,079,241	3,186,438	1,859,174	765,888
1841	21	10,214,908	2,529,843	3,136,979	1,860,015	225,529
1842	20	10,709,332	1,832,920	2,934,824	1,231,885	1,049,480
1843	20	9,746,279	1,743,768	2,977,174	753,499	932,529
1844	20	9,540,374	2,273,550	4,231,664	1,228,577	929,436
1845	20	8,358,332	2,607,682	3,947,113	1,360,897	914,811
1847	14	7,999,004	2,400,267	3,863,891	982,731	. . . .
1848	20	8,541,830	3,106,901	4,211,278	1,667,249	3,556
1849	20	8,557,732	2,780,476	3,994,162	1,502,437	3,142
1850	21	8,704,711	3,091,408	5,183,609	1,732,813	3,178
1851	23	9,115,156	3,532,870	5,966,834	1,928,214	3,395
1853	19	8,064,930	4,254,412	7,282,355	1,676,361	131,734
1854	25	9,558,409	4,918,381	8,621,052	2,348,791	71,645
1855	29	10,411,874	4,118,197	7,268,888	1,511,970	891,230
1856	31	11,202,606	5,297,983	8,370,345	1,924,756	938,108
1857	31	12,297,276	5,155,096	9,611,324	1,895,284	679,701
1858	31	12,451,545	4,041,021	7,541,186	4,194,677	549,933
1859	32	12,560,635	3,977,971	9 028,664	1,725,807	417,667
1860	31	12,568,962	4,106,869	8,874,180	1,324,740	357,195
1861	31	12,567,121	3,558,247	9,086,162	2,108,920	426,434
1862	28	12,155,979	3,794,295	7,637 602	1,167,555	1,631,140
1863	32	12,112,309	6,649,030	13,779,279	1,799,287	1,485,750
1864*	16	10,305,295	6,421,059	11,410,590	2,469,361	1,778,832

* Baltimore banks only.

APPENDIX II.

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Bibliographical Note.—Information about State banks before 1830 is very meagre. Contemporary periodicals, especially Niles' Register, have been of great service for this period. Considerable statistical information has been tabulated in the report of the Secretary of the Treasury for 1876, and in the special report of January 28, 1893. This, however, is abridged from the tables appended to Gallatin's "Considerations on the Currency," and from Elliot's "Funding System." Of especial value have been several reports of Baltimore banks to their stockholders, in which various facts have been collected. After 1827 the reports to the State Legislature became regular; tables, not otherwise accredited, have been compiled from these. The following are the more important works which have been consulted:

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